



# TARGET COMPANY STATEMENT

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Target Company Statement in relation to a full takeover offer by Bounty Holdings New Zealand Limited, a wholly owned subsidiary of Bounty Fresh Food, Inc.

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Date: 11 June 2018



This is an important document and requires your urgent attention. If you have any questions in respect of the document or the offer, you should seek advice from your financial or legal advisor.

FINANCIAL ADVISOR

**Goldman  
Sachs**

LEGAL ADVISOR

**CHAPMAN  
TRIPP** 

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COVER

Tegel Free Range  
Roast Chicken

LUNCHTIME

Tegel Sweet Chilli  
Shredded Chicken





**HAPPY KIDS!**

Tegel Free Range Panko  
& Quinoa Crumbed  
Chicken Tenders



## Chairman's Letter



**David Jackson**  
CHAIRMAN

### Dear fellow Tegel shareholder,

You will have recently received an offer from Bounty Holdings New Zealand Limited ("Bounty") to acquire all of your ordinary shares ("Shares") in Tegel Group Holdings Limited ("Tegel") for \$1.23 per share (the "Offer Price") and all of the performance rights granted under the equity settled share based incentive plan for senior managers and eligible employees in May 2016 ("FY2017 Performance Rights") and in July 2017 ("FY2018 Performance Rights") (the "Offer"). The Offer terms also permit Tegel to pay a dividend of up to \$0.041 per Share (which is the dividend amount that has been declared in the FY2018 results reported as at today's date).

Tegel's response to the Offer has been managed on behalf of the Tegel Board by the independent directors David Jackson (Independent Chairman), Bridget Coates and George Adams operating as an independent sub-committee of the Tegel board of directors ("Independent Directors Committee"). None of the members of the Independent Directors Committee have any association with Bounty.

Phil Hand, Tegel's Chief Executive Officer and Executive Director and Tegel's two non-executive directors, who are associated with Claris Investments Pte Ltd ("Claris") which holds 45.0% of Tegel's Shares on issue, did not sit on the Independent Directors Committee.

**Enclosed** with this letter you will find Tegel's Target Company Statement which Tegel has prepared in compliance with the requirements of the Takeovers Code. An independent report on the merits of the Offer undertaken by KordaMentha is also provided.

In forming a view in relation to the merits of the Offer, the Independent Directors Committee has had regard to the value offered by Bounty, and also to the implications of the acceptance or rejection of the Offer by Tegel shareholders. The fact that Bounty has achieved acceptances in respect of 46.1% of Tegel's Shares on issue (including the 45.0% held by Claris), and has acquired 16.3% of Tegel's Shares on issue as at 7 June 2018 (being the latest practicable working day before the date of printing of the Target Company Statement) means that control of Tegel will pass to Bounty if the Offer is declared unconditional, and so particular consideration has been given to the outcome for shareholders who might be considering not to accept the Offer.

The Independent Directors **unanimously recommend that shareholders accept the Bounty Offer** because:

1. the Offer price is fair and within the range assessed by both the Independent Directors and KordaMentha for the current value of Tegel Shares;
2. the Offer price represents a premium to Tegel's undisturbed historic trading price;
3. the Offer's 50% minimum acceptance condition has already been satisfied;
4. Bounty will have effective majority control of Tegel if the Offer is declared unconditional. This introduces additional uncertainties for any minority shareholders who elect to reject the Offer, including in respect of Tegel's future business strategy, and dividend and capital management policies (as to which the Independent Directors Committee does not have any visibility, and so cannot assess);
5. if Tegel remains listed following completion of the Offer, it is likely that there will be reduced liquidity impacting the ability to sell Tegel Shares;
6. the trading price of Tegel's Shares may fall in the absence of the Offer or a superior proposal; and
7. it is unlikely that there will be a competing offer (given Bounty's current shareholding of 16.3% and likely majority control given the total acceptance of the Offer in respect of 46.1% of Tegel Shares on issue by Tegel shareholders, including Claris in respect of its 45.0%).

Notwithstanding the above, the Independent Directors Committee recognises that some Tegel shareholders with a greater tolerance for risk, and a longer investment time horizon, and who have a view that Bounty's involvement with Tegel will create value for all Tegel shareholders,



may consider rejecting the Offer. As always, the decision as to whether or not to accept the Offer will depend on the circumstances for each individual shareholder, including individual risk profile, portfolio strategy, tax position, financial circumstances and investment horizon.

The Independent Directors' recommendation in respect of the FY2017 Performance Rights and the FY2018 Performance Rights is contained in paragraph 15 of the Target Company Statement.

The Offer period runs until 25 August 2018 (unless extended in accordance with the Takeovers Code) and the Offer is still subject to conditions, including Bounty receiving approval from the Overseas Investment Office. Without commenting on the application itself, we are hopeful that a decision can be made by the Overseas Investment Office within the Offer period. There is no benefit to early acceptance and, once given, acceptances cannot be withdrawn (so you would be unable to sell your Tegel Shares to any other person once you accept). For this reason, the Independent Directors Committee would not recommend early acceptance of the Offer.

The Offer Price cannot be reduced. If you accept the Offer, you will not be paid the Offer Price until after the Offer becomes unconditional.

The Independent Directors will keep all shareholders informed of the progress of satisfying the Offer conditions and the implications for shareholders.

The Independent Directors Committee recommends you to read the Target Company Statement, including the Independent Adviser's Report, carefully before making a decision.

We also encourage you to seek professional advice in relation to your particular circumstances.

Yours sincerely,



**David Jackson**  
INDEPENDENT CHAIRMAN OF TEGEL

#### EASY LUNCH

Tegel Tandoori  
Chicken Tenders



# Reasons Behind the Recommendation

1

## The price is at the midpoint of the Independent Advisor's valuation range

The Offer Price of \$1.23 per Tegel Share and the permitted dividend of \$0.041 per Tegel Share (which KordaMentha considers results in an "effective price" of \$1.27) is at the midpoint of the valuation range of \$1.15 to \$1.39 per Share for the underlying value of Tegel Shares in its Independent Adviser's Report. KordaMentha concluded that "in our view, the positives of accepting the Offer outweigh the negatives".

2

## The Offer represents a premium to the undisturbed historic trading price

The Offer Price of \$1.23 per Share represents a 50.0% premium to the \$0.82 close price of Tegel Shares on 24 April 2018 on the NZX (being the last trading day before Tegel received Bounty's Takeover Notice) and a 25.4% premium to the three month VWAP<sup>1</sup> of \$0.98 per Share prior to Tegel receiving Bounty's Takeover Notice.

3

## The 50% minimum acceptance condition has already been satisfied

If the Offer is declared unconditional, Bounty's total shareholding in Tegel will increase to over 62.4%, including the 16.3% of Tegel Shares on issue Bounty owns as at 7 June 2018 (being the latest practicable working day before the date of printing of the Target Company Statement) and the acceptance of the Offer in respect of 46.1% of Tegel Shares on issue by Tegel shareholders (including Claris in respect of its 45.0% of Tegel Shares on issue consistent with the terms of the lock-up agreement Claris entered into with Bounty in respect of all of its shares, prior to the Offer).

4

## Uncertainty regarding Bounty's views on Tegel's current strategy and/or the benefits it could provide as a majority shareholder

Control of Tegel will pass to Bounty if the Offer is declared unconditional. As a result, Bounty will have the ability to revise Tegel's business strategy. Furthermore, Bounty has also indicated areas of opportunity for Tegel and Bounty to collaborate which may create value for Tegel shareholders who do not accept the Offer. Accordingly, a delegation consisting of Independent Chairman (David Jackson) and key members of the Tegel senior executive team (including Phil Hand (CEO), Peter McHugh (CFO) and Christine Cash (Strategy and Business Development)) with the relevant expertise to review Bounty's farming, procurement, processing and downstream retail operations visited Bounty's sites in the Philippines from Monday 4 June 2018 until Wednesday 6 June 2018 on behalf of the Independent Director Committee and Tegel.

The delegation was impressed with the Bounty operations that were visited. It was evident that Bounty has successfully invested considerable amounts in plant technologies and infrastructure in its domestic operations, and has achieved an impressive and rapid level of growth through a concentrated development of its facilities over the last 20 years. A long term approach to development of its business and people, and a commitment to high levels of bird welfare, was apparent.

While this visit provided the Independent Directors Committee with useful and positive insights as to Bounty's domestic operations in the Philippines, for legal reasons, the Independent Directors Committee has not been able to obtain Bounty's views in respect of Tegel's current strategy, and so is unable to form a view on its appetite or ability to execute this strategy going forward. The Independent Directors Committee believes that it is likely that there will be benefits for Tegel from its association with Bounty as a majority shareholder but, due to the limited dialogue that has taken place, the Independent Directors Committee is not currently in a position to quantify these benefits and therefore these benefits do not factor into their recommendation.

1. VWAP means the cumulative volume weighted average price at which Tegel shares have traded on the NZX Main Board for the relevant period. VWAP is calculated by summing the value of all the trades which occurred before the relevant period and dividing that sum by the volume of shares transacted in those trades.

## 5

**Uncertainty regarding Tegel's future capital management policies and liquidity**

Bounty becoming a controlling majority shareholder following a successful Offer creates the following additional areas of uncertainty, with potentially adverse consequences, for non-accepting Tegel minority shareholders:

- a) Liquidity: Subject to final acceptance levels, there are likely to be lower levels of liquidity in Tegel Shares after the Offer, meaning you are less likely to be able to sell your Tegel Shares; and
- b) Dividend and capital management: Bounty has not provided any detail in terms of the future dividend policy it is willing to support or long term Tegel capital structure. This adds uncertainty to Tegel's ability to continue its current dividend and capital management policies.

## 6

**The trading price of Tegel Shares may fall in the absence of the Offer or a superior proposal**

The Tegel Share price increased by 36.6% following the announcement of the Offer from an undisturbed closing price of \$0.82 on 24 April 2018 to a closing price of \$1.12 on 26 April 2018.<sup>2</sup> In the absence of the Offer and if no superior proposal emerges, the Tegel Share price may fall immediately following the close of the Offer to further below Bounty's Offer Price.

## 7

**Unlikely to be competing offers**

As at 7 June 2018 (being the latest practicable working day before the date of printing of the Target Company Statement), no competing offer has been made for Tegel Shares. Further, given Bounty's shareholding of 16.3% (which provides a blocking stake to any compulsory acquisition attempt) and that Claris (who hold 45.0% of Tegel Shares on issue) have accepted the Offer, the Independent Directors Committee believes that a competing offer is very unlikely.

**DELICIOUS SNACKS**

Tegel Chicken Chips  
with a Crispy Crumb



2. Based on the closing price of Tegel shares on the NZX Main Board. Data sourced from IRESS.

# Takeovers Code Disclosures

## 1 Date

This target company statement (the *Target Company Statement*) is dated 11 June 2018.

## 2 Offer

- (a) The Offer is a full takeover offer by Bounty Holdings New Zealand Limited (*Bounty*) to purchase:
- (i) all of the fully paid ordinary shares in Tegel (the *Shares*) for a purchase price of \$1.23 per Share, payable in cash;
  - (ii) all of the performance rights granted under Tegel's equity settled share based incentive plan for senior managers and eligible employees in May 2016 (the *FY2017 Performance Rights*) for a purchase price of \$0.043 per FY2017 Performance Right, payable in cash; and
  - (iii) all of the performance rights granted under Tegel's equity settled share based incentive plan for senior managers and eligible employees in July 2017 (the *FY2018 Performance Rights*) for a purchase price of \$0.26 per FY2018 Performance Right, payable in cash,
- (together, the *Offer*).
- (b) The terms of the Offer are set out in the offer document dated 28 May 2018, which has been sent to all shareholders in Tegel (the *Tegel Shareholders*) by Bounty (the *Offer Document*).

## 3 Target Company

The name of the target company is Tegel Group Holdings Limited (*Tegel*) (NZX: TGH, ASX: TGH).

## 4 Directors of Tegel

The names of the directors of Tegel are:

- David Jackson (Independent Chairman);
- Philip Hand (Executive Director and CEO);
- George Adams (Independent non-executive director);
- Bridget Coates (Independent non-executive director);
- Tang Kok Yew (Non-executive director); and
- Brett Sutton (Non-executive director).

## 5 Ownership of equity securities of Tegel

- (a) Schedule 1 to this Target Company Statement sets out the number, designation, and the percentage of any class of equity securities of Tegel held or controlled by each director or senior officer of Tegel and their associates. Except as set out in Schedule 1, no director or senior officer of Tegel or their associates holds or controls any securities of Tegel.
- (b) The senior officers of Tegel for the purposes of this Target Company Statement are:
- (i) Philip Hand (Chief Executive Officer);

- (ii) Peter McHugh (Chief Financial Officer);
  - (iii) Christine Cash (General Manager, Strategy and Business Development);
  - (iv) Edward Campion (General Manager, Operations);
  - (v) Austin Laurenson (General Manager, Supply Chain and Technical Services);
  - (vi) Evelyn Davis (General Manager, Human Resources);
  - (vii) John Russell (General Manager, Agriculture and Supply); and
  - (viii) Malcolm Clack (General Manager, Sales).
- (c) Schedule 2 to this Target Company Statement sets out the number, designation, and the percentage of any class of equity securities of Tegel held or controlled by any other person holding or controlling 5% or more of any class of equity securities of Tegel, to the knowledge of Tegel. Except as set out in Schedule 2, no other person is known by Tegel to hold or control 5% or more of any class of equity securities of Tegel.
- (d) Schedule 3 to this Target Company Statement sets out the number of equity securities of Tegel:
- (i) that have, during the two year period ending on the date of this Target Company Statement, been issued to the directors and senior officers of Tegel or their associates; or
  - (ii) in which the directors and senior officers of Tegel or their associates have, during the two year period ending on the date of this Target Company Statement, obtained a beneficial interest under any employee share scheme or other remuneration arrangement,
- together with the price at which any such equity securities were issued or provided.

## 6 Trading in Tegel's equity securities

- (a) No director or senior officer of Tegel or their associates have acquired or disposed of any of Tegel's equity securities during the 6 month period ending on 7 June 2018 (being the latest practicable date before the date of this Target Company Statement).
- (b) Details of the acquisition or disposition of Shares, FY2017 Performance Rights or FY2018 Performance Rights during the six month period ending on 7 June 2018 (being the latest practicable date before the date of this Target Company Statement) by any person holding or controlling 5% or more of the Shares, the FY2017 Performance Rights or the FY2018 Performance Rights are set out in Schedule 4. Except as set out in Schedule 4, to the knowledge of Tegel, no person holding or controlling 5% or more of the equity securities of any class of Tegel has acquired or disposed of equity securities of Tegel during that six month period.



## 7 Acceptance of Offer

The directors and senior officers listed in the table below have advised that they (or their associates) intend to accept the Offer in respect of the number of Shares held or controlled by them listed in that table.<sup>1</sup> Subject to an exercise of the Board's discretion as outlined at paragraph 17(f), the terms of the LTI Plan do not permit the performance rights to be transferred, so none of the senior officers of Tegel intend to accept the Offer in respect of any FY2017 Performance Rights or FY2018 Performance Rights.

Name	Description	Number of Shares	Number of FY2017 Performance Rights	Number of FY2018 Performance Rights
David Jackson	Director of Tegel	57,260	N/A	N/A
George Adams	Director of Tegel	32,258	N/A	N/A
Tang Kok Yew and Brett Sutton	Directors of Tegel	160,157,782	N/A	N/A
Phil Hand	Director and senior officer of Tegel	645,059	0	0
Peter McHugh	Senior officer of Tegel	289,062	0	0
Christine Cash	Senior officer of Tegel	229,796	0	0
Edward Campion	Senior officer of Tegel	459,597	0	0
Austin Laurenson	Senior officer of Tegel	91,918	0	0
Evelyn Davis	Senior officer of Tegel	248,183	0	0
Malcolm Clack	Senior officer of Tegel	25,000	0	0

## 8 Ownership of equity securities of Bounty

Neither Tegel, nor any director or senior officer of Tegel or any of their associates, holds or controls any equity securities of Bounty (*Bounty Shares*).

## 9 Trading in equity securities of Bounty

Neither Tegel, nor any director or senior officer of Tegel or any of their associates, has acquired or disposed of any Bounty Shares during the 6 month period before 7 June 2018 (being the latest practicable date before the date of this Target Company Statement).

## 10 Arrangements between Tegel and Bounty

- (a) On 15 May 2018, Tegel entered into a Confidentiality Deed with Bounty Fresh Food Inc., Bounty's parent company, under which Bounty Fresh Food Inc. agreed to keep confidential information disclosed to it by Tegel in connection with its takeover offer for Tegel and to use that information solely for that purpose.
- (b) In correspondence with Bounty, Bounty has agreed that Tegel may, at the discretion of the board of Tegel and upon recommendation from the CEO of Tegel, reward and retain key Tegel staff as required through payments not to exceed in aggregate \$200,000.

- (c) The terms of the Offer permit Tegel to pay a dividend of 4.1 cents per Share, which the Board declared on 8 June 2018 in respect of the financial year ending 29 April 2018. In correspondence with Bounty, Bounty has agreed that, in addition to the permitted dividend of 4.1 cents per Share, Tegel may pay a supplementary dividend to non-resident Tegel Shareholders of 0.723529 cents per Share which the Board declared on 8 June 2018 and accordingly waived the relevant condition of its Offer for this purpose.

- (d) Except as set out in paragraph 10(a) and (b), at the date of this Target Company Statement, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Bounty or any of its associates and Tegel or any related company of Tegel, in connection with, in anticipation of, or in response to, the Offer.

## 11 Relationship between Bounty, and directors and senior officers of Tegel

- (a) No agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Bounty or any associates of Bounty, and any of the directors or senior officers of Tegel or of any related company of Tegel (including any payment or other benefit proposed to be made or given by way of compensation for loss of office,

1. Schedule 1 to this Target Company Statement sets out further details of the Shares held by certain directors or senior managers of Tegel.

or as to their remaining in or retiring from office) in connection with, in anticipation of, or in response to the Offer.

- (b) None of the directors or senior officers of Tegel are also directors or senior officers of Bounty or any related companies of Bounty.

## 12 Agreements between Tegel, and directors and senior officers of Tegel

Except as noted at paragraph 10(b), no agreements or arrangements (whether legally enforceable or not) have been made, or are proposed to be made, between Tegel (or any related company of Tegel) and any of the directors or senior officers or their associates of Tegel or any related company of Tegel, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, in anticipation of, or in response to, the Offer.

## 13 Interests of directors and senior officers of Tegel in material contracts of Bounty (or a related company of Bounty)

Except as set out in paragraph 13A(b) below, no director or senior officer of Tegel or their associates has any interest in any contract to which Bounty, or any related company of Bounty, is a party.

### 13A Interests of Tegel's substantial security holders in material contracts of Bounty (or a related company of Bounty)

- (a) Except as set out below, no person who, to the knowledge of the directors or the senior officers of Tegel, holds or controls 5% or more of any class of equity securities of Tegel, has an interest in any material contract to which Bounty, or any related company of Bounty, is a party.
- (b) Claris Investments Pte. Limited (*Claris*) is a substantial product holder of Tegel. Claris has entered into a lock-up agreement with Bounty and Bounty Fresh Food Inc. dated 24 April 2018 (the *Lock-Up Agreement*) pursuant to which Claris has agreed to accept the Offer in respect of the 160,157,782 Shares held by Claris. Subject to the Offer being made by Bounty in accordance with the terms of the Lock-Up Agreement, Claris agreed to accept the Offer by no later than the date which is three business days after the date of despatch of the Offer (as notified by Bounty pursuant to Rule 45 of the Takeovers Code) or, if later, then on the business day on which the Offer is received by Claris. On 30 May 2018, Claris accepted the Offer as contemplated by the Lock-Up Agreement. If the Offer is declared unconditional and completes, the amount payable to Claris by Bounty under the Offer at \$1.23 per Share would be \$196,994,071.86. Tegel director Tang Kok Yew is the Founding Chairman and Managing Partner of Affinity Equity Partners and Tegel director Brett Sutton is a partner at Affinity Equity Partners. Claris is wholly-owned by funds managed and advised by Affinity Equity Partners. Accordingly, because of their association with Affinity

Equity Partners, and therefore Claris, each of Tang Kok Yew and Brett Sutton have an interest in the Lock-Up Agreement.

- (c) Bounty itself holds 5% or more of Tegel's ordinary shares and inherently has an interest in all contracts to which Bounty, or any related company of Bounty, is a party.

## 14 Additional information

In the opinion of the directors of Tegel, no additional information, within the knowledge of Tegel, is required to make the information in Bounty's Offer Document correct or not misleading

## 15 Recommendation

- (a) The board of directors of Tegel has appointed a committee of directors (the *Independent Director Committee*) to attend to all matters associated with the Offer. The Independent Director Committee comprises David Jackson, Bridget Coates and George Adams. None of the members of the Independent Director Committee have any association with Bounty.
- (b) The recommendation of the Independent Director Committee and the reasons for that recommendation are set out on pages 2 to 5 of this Target Company Statement. In reaching this recommendation, the Independent Director Committee has carefully considered a full range of expert advice available to it (including the Independent Adviser's Report).
- (c) The Independent Director Committee makes no recommendation in respect of the FY2017 Performance Rights and the FY2018 Performance Rights as the terms of the LTI Plan do not permit the FY2017 Performance Rights and FY2018 Performance Rights to be transferred. The Independent Director Committee may change its recommendation in this regard if the Board exercises its discretion to allow early vesting or transfer of the FY2017 Performance Rights or FY2018 Performance Rights after seeking professional advice as noted at paragraph 17(f).
- (d) Tang Kok Yew is the Founding Chairman and Managing Partner of Affinity Equity Partners and Brett Sutton is a partner at Affinity Equity Partners. As Claris which, as noted above, has entered into the Lock-Up Agreement with Bounty and accepted the Offer is wholly-owned by funds managed and advised by Affinity Equity Partners, each of Tang Kok Yew and Brett Sutton have a potential conflict of interest in respect of the Offer and are therefore not members of the Independent Director Committee. For this reason, they abstain from making any recommendation to you as to whether to accept or reject the Offer.
- (e) Tegel director Phil Hand, being the Chief Executive Officer of Tegel, has a potential conflict of interest in respect of the Offer due to his employment by Tegel. Phil Hand therefore is not a member of the Independent Director Committee and abstains from making any recommendation as to whether to accept or reject the Offer.



## 16 Actions of Tegel

- (a) Except for the arrangements summarised above at paragraph 10, there are no material agreements or arrangements (whether legally enforceable or not) of Tegel and its related companies entered into as a consequence of, in response to, or in connection with, the Offer.
- (b) There are no negotiations underway as a consequence of, or in response to, or in connection with, the Offer that relate to or could result in:
  - (i) an extraordinary transaction, such as a merger, amalgamation, or reorganisation, involving Tegel or any of its related companies; or
  - (ii) the acquisition or disposition of material assets by Tegel or any of its related companies; or
  - (iii) an acquisition of equity securities by, or of, Tegel or any related company of Tegel; or
  - (iv) any material change in the equity securities on issue, or policy relating to distributions, of Tegel.

## 17 Equity securities of Tegel Tegel Shares

- (a) Tegel currently has 355,906,183 Shares on issue. Subject to the NZX Main Board Listing Rules and Tegel's constitution, the rights of Tegel Shareholders in respect of capital, distributions and voting are as follows:
  - (i) the right to an equal share with other Tegel Shareholders in dividends authorised by the board of Tegel;
  - (ii) the right to an equal share with other Tegel Shareholders in the distribution of surplus assets on liquidation of Tegel;
  - (iii) the right to participate in certain potential further issues of equity securities by Tegel; and
  - (iv) the right to cast one vote on a show of hands or the right to cast one vote for each share held on a poll, in each case at a meeting of Tegel Shareholders on any resolution, including a resolution to:
    - appoint or remove a director or auditor;
    - alter Tegel's constitution;
    - approve a major transaction;
    - approve an amalgamation of Tegel; and
    - put Tegel into liquidation.

### FY2017 Performance Rights and FY2018 Performance Rights

- (b) Tegel currently has 844,572 FY2017 Performance Rights and 1,197,059 FY2018 Performance Rights granted under Tegel's equity settled share based incentive plan for senior managers and employees established on 20 April 2016 (the *LTI Plan*). The LTI Plan is designed to attract and retain senior managers within the business and to align the interests of management with shareholders' interests.
- (c) The material terms of the FY2017 Performance Rights and FY2018 Performance Rights are set out as follows.

The terms of both the FY2017 Performance Rights and FY2018 Performance Rights are identical for the purposes of the following subparagraphs (i) to (v) and so are both referred to as "performance rights".

- (i) Under the LTI Plan, participants are granted performance rights. Each performance right gives the participant the right to acquire one ordinary Share in Tegel, subject to meeting vesting conditions set by the Tegel board. The Tegel board has absolute discretion to invite employees or contractors of Tegel to participate in the LTI Plan and to set the terms and conditions of the performance rights to be granted, consideration for the grant (if any) and the vesting conditions attached to those performance rights.
- (ii) During each financial year, the Tegel board approves a grant of performance rights. Participants did not pay any consideration for the performance rights and, once they vest, participants will not pay any issue price when they elect to acquire Shares in exchange for their vested performance rights.
- (iii) Vesting of performance rights on issue is conditional on Tegel's total shareholder return over the vesting period (calculated off a base of the share price at the grant date) being positive, ranking above the 50th percentile of total shareholders returns for companies in the S&P/NZX50 and the participant remaining employed by Tegel at the time of vesting.
- (iv) The number of performance rights that will vest will be calculated on a straight line basis where Tegel's total shareholder return ranks between the 50th and 75th percentile, and all of the performance rights will vest where Tegel's total shareholder return ranks 75th percentile or above. Once vested, the performance rights remain exercisable for a period of six months.
- (v) As at the date of this notice, the issue of the FY2019 performance rights has not been formally approved by the Board, but Tegel's Governance and Remuneration Committee has (consistent with previous practice) recommended that a further tranche of performance rights be issued. This grant was intended to be formally approved by Tegel's board in June 2018. However, Tegel has undertaken to the Takeovers Panel that it will not issue any further performance rights during the period of the Offer. Tegel will consider whether or not to issue these performance rights following completion of the Offer.
- (d) The vesting period for the FY2017 Performance Rights and the FY2018 Performance Rights ends after the announcement of Tegel's financial results for the 2019 and 2020 financial years, respectively.
- (e) Under the terms of the LTI Plan, the Board may (in its sole discretion) determine that any performance rights, including, for the avoidance of doubt, the FY2017 Performance Rights and FY2018 Performance

Rights, granted to participants may (subject to satisfaction of any such performance conditions as determined by the Board in its sole discretion) vest early on the earlier of the date that:

- (i) The Board recommends that the holders of Shares:
    - (A) accept a takeover bid for Tegel; or
    - (B) approve or vote in favour of a scheme of arrangement for the takeover of Tegel, and the Board considers that the takeover will be successful;
  - (ii) any person acquires voting rights in more than 50% of the Shares on issue, or any similar event, which the Board acting reasonably determines is, or is likely to result in, a change in control of Tegel;
  - (iii) a resolution is passed for the voluntary winding up of Tegel;
  - (iv) an order is made for the compulsory winding up of Tegel;
  - (v) the employer of the participant in the LTI Plan or business in which the participant is employed is sold by or transferred out of Tegel; and
  - (vi) the Board otherwise decides, in its sole discretion, that some or all of the performance rights issued under the LTI Plan will vest.
- (f) The Board intends to seek professional advice before making any decision (in its sole discretion) as to whether it will permit early vesting in respect of any of the FY2017 Performance Rights or FY2018 Performance Rights in connection with the Offer or permit any of the FY2017 Performance Rights or FY2018 Performance Rights to be transferred in connection with the Offer (as also permitted by the LTI Plan rules).

## 18 Financial information

- (a) Every person to whom the Offer is made is entitled to obtain from Tegel a copy of Tegel's most recent annual report (being the annual report for the period ended 30 April 2017) by making a written request to Tegel at [investorrelations@tegel.co.nz](mailto:investorrelations@tegel.co.nz).
- (b) A copy of the annual report is also available from Tegel's website at <http://investors.tegel.co.nz/annual-reports/>.
- (c) A copy of Tegel's most recent half-yearly report since its annual report for the period ended 30 April 2017 (being the half-yearly report for the six months ended 29 October 2017) is included as Appendix 1 to this Target Company Statement.
- (d) A copy of Tegel's interim report relating to a period after the half-yearly report described in subparagraph (c) above, being Tegel's financial statements for the year ended 29 April 2018 (but which is not an "annual report" for the purposes of the Takeovers Code), is included as Appendix 2 to this Target Company Statement.
- (e) There have been the following changes in the financial or trading position, or prospects, of

Tegel since its annual report for the period ended 30 April 2017:

- (i) On 6 December 2017, Tegel announced its financial results for the six months ended 29 October 2017, which includes the unaudited financial statements for that period and includes the following material changes in the financial and trading position and prospects of Tegel:
  - (A) Revenue of \$302.3 million, up 2.0% compared to the previous comparative 26 week period to 23 October 2016. The growth was driven by an 0.8% increase in poultry volumes to 48,676 tonnes and improved price/mix in the domestic market;
  - (B) Underlying EBITDA of \$34.6 million, down 1.7% compared to the previous comparative 26 week period to 23 October 2016. Tegel uses "Underlying EBITDA" as a measure of operating performance. It excludes the effects of certain IFRS fair value adjustments and items that are of a non-recurring nature. It has been calculated on a consistent basis with "Pro forma EBITDA" presented in the prospective financial information provided at the time of the initial public offering;
  - (C) Net Profit After Tax (NPAT) of \$14.8 million, down 2.3% compared to the previous comparative 26 week period to 23 October 2016, in part due to non-recurring costs from the Kaikoura earthquake and regulatory changes;
  - (D) domestic market volume growth from continued poultry consumption growth with increases in all domestic channels during the half year and changing trends of consumers looking for increasingly convenient meal solutions being reflected in growth in QSR and Foodservice channels (which also experienced the largest revenue gains);
  - (E) export volumes of 7,907 tonnes, a decline of 3.5% compared to the previous comparative 26 week period to 23 October 2016, driven by a major Australian customer taking production in-house however there was also strong export volume growth in the Pacific Islands and Asia, with solid volumes into the Middle East and Asia (and launch of first Tegel products to Bahrain); and
  - (F) a fully imputed interim dividend of 3.45 cents declared and announced to be paid on 26 January 2018, consistent with the previous comparative 26 week period to 23 October 2016.
- (ii) On 22 February 2018, Tegel announced that as a result of ex-cyclone Gita areas of the New Plymouth region were without water supply, including the company's processing plant located there (resulting in temporary suspension of production) as well as an ammonia leak from a valve on the chilled water tank at the



New Plymouth production facility earlier in the week (which was quickly contained and no one was injured as a result of the incident and production resumed as usual at the start of the week but the company incurred some stock losses from the chiller). Initial estimates of the one-off FY2018 NPAT impact of the disruptions were \$1.5 million to \$2.0 million.

- (iii) On 8 March 2018, Tegel announced an FY2018 earnings guidance update in relation to the effect of previously advised costs that had impacted the business in FY2018 and also to provide an update on FY2018 trading performance, which included the following material changes in the financial and trading position of Tegel:
  - (A) expected total pre-tax non-recurring costs in FY2018 of approximately \$8 million to \$10 million (including water supply issues and an ammonia leak at the New Plymouth processing plant, additional compliance and regulatory procedures, and internal restructuring);
  - (B) contracting of a further three free range farms in January to allow for the continued growth of this market segment (in respect of which the operational cost and associated services were not included in the previous FY2018 budget);
  - (C) as previously communicated, Tegel continues in its strategy to diversify Tegel's customer base in Australia, from a strong position in the QSR channel, to include a larger presence in the Retail and Foodservice channels. This transition is progressing well, though slower than forecast, resulting in export trading performance over the January and February period being weaker than expected as a result of this transitional timing; and
  - (D) FY2018 Underlying EBITDA expected to be in the range of \$70 million to \$72 million (excluding the non-recurring costs discussed earlier) and FY2018 NPAT of \$25 million to \$27 million (compared to \$72.0 million and \$31.7 million respectively for the previous comparative 52 week period to April 2017).
- (f) The following information about the assets, liabilities, profitability and financial affairs of Tegel could reasonably be expected to be material to the making of a decision by Tegel Shareholders to accept or reject the Offer:
  - (i) in the event of a change of control, it is expected that \$9.2 million of imputation credits will be forfeited as outlined in note 6.1(d) of the FY2018 Financial Statements included as Appendix 2 to this Target Company Statement; and
  - (ii) a change of control of Tegel without the prior consent of Tegel's banking syndicate will result in an event of review under Tegel's bank facility

agreement. On and at any time after an event of review, Tegel's banking syndicate may require that the parties enter into negotiations with a view to agreeing terms on which the facilities may continue to be made available. If there is no agreement within 60 days, the banking syndicate may take various actions, including requiring repayment of the facilities in full.

Tegel has been working with its banking syndicate and Bounty to provide relevant background information to obtain all necessary approvals to keep the current facilities in place.

- (g) Other than as set out elsewhere in this Target Company Statement, or as contained in the Independent Adviser's Report:
  - (i) there have been no known material changes in the financial or trading position or prospects of Tegel since its annual report for the period ended 30 April 2017; and
  - (ii) there is no other information about the assets, liabilities, profitability and financial affairs of Tegel that could reasonably be expected to be material to the making of a decision by Tegel Shareholders to accept or reject the Offer.

## 19 Independent advice on merits of Offer

- (a) KordaMentha, as independent adviser, has prepared a report on the merits of the Offer as required by Rule 21 of the Takeovers Code. A copy of KordaMentha's full report is attached to this Target Company Statement as Appendix 3.
- (b) The Independent Adviser's Report includes:
  - (i) a statement of the qualifications and expertise of KordaMentha; and
  - (ii) a statement that KordaMentha has no conflict of interest that could affect its ability to provide an unbiased report.

## 19A Different classes of securities

Attached as Appendix 4 to this Target Company Statement is a copy of the independent adviser's report prepared by Northington Partners which was obtained by Bounty pursuant to Rule 22 of the Takeovers Code.

## 20 Asset valuation

None of the information provided in this Target Company Statement refers to a valuation of any asset of Tegel.

## 21 Prospective financial information

- (a) None of the information provided in this Target Company Statement refers to prospective financial information of Tegel.
- (b) The Independent Adviser's Report refers to prospective financial information of Tegel. The principal assumptions on which the prospective financial information is based are set out in the Independent Adviser's Report.

- (c) For the purposes of responding to Bounty's Offer, the Independent Directors Subcommittee reviewed and approved for release to KordaMentha an FY2019 earnings range specifically prepared to illustrate potential FY2019 EBITDA outcomes (the *FY2019 Illustrative EBITDA Range*) and Tegel's long term financial projections for the financial years ending April 2020 to 2023 in order to facilitate the Independent Adviser's Report and this Target Company Statement. The FY2019 Illustrative EBITDA Range and financial projections for the financial years ending April 2020 to 2023 were prepared as at 18 May 2018. While all due care has been taken with its preparation and review, as with all forward looking statements, no assurance can be given that actual performance or results will meet or exceed the FY2019 Illustrative EBITDA Range and Tegel's projections for the financial years ending April 2020 to 2023. At this early stage of Tegel's financial year, there are many uncertainties which could materially impact Tegel's financial results. For the avoidance of any doubt, the FY2019 Illustrative EBITDA Range does not constitute a forecast.

## 22 Sales of unquoted equity securities under Offer

- (a) The FY2017 Performance Rights and FY2018 Performance Rights, which are the subject of the Offer, are not quoted on a stock exchange. Except as set out in paragraph 22(b), no FY2017 Performance Rights and FY2018 Performance Rights have been disposed of in the 12 month period ending on the latest practicable date before the date of this Target Company Statement (being 7 June 2018).
- (b) On 26 February 2018, the Board resolved that two former senior officers of Tegel, David Taylor and Martin Baker, should be treated as "good leavers" for the purposes of the LTI Plan. In accordance with the LTI Plan rules, David Taylor and Martin Baker retained only 58.33% of their FY2017 Performance Rights and 25% of their FY2018 Performance Rights as "good leavers". The remaining 41.67% of the FY2017 Performance Rights and 75% of the FY2018 Performance Rights due to David Taylor and Martin Baker were cancelled. There was no consideration paid in respect of either the cancelled FY2017 Performance Rights or the cancelled FY2018 Performance Rights.

## 23 Market prices of quoted equity securities under Offer

- (a) The closing price on the NZX Main Board of Shares on:
- 7 June 2018, being the latest practicable working day before the date on which this Target Company Statement is sent to Tegel Shareholders, was NZ\$1.17; and
  - 24 April 2018, being the last day on which the NZX was open for business before the date on which Tegel received Bounty's takeover notice, was NZ\$0.82.

- (b) The closing price on the ASX of Shares on:
- 7 June 2018, being the latest practicable working day before the date on which this Target Company Statement is sent to Tegel Shareholders, was AU\$1.07; and
  - 24 April 2018, being the last day on which the ASX was open for business before the date on which Tegel received Bounty's takeover notice, was AU\$0.755.
- (c) The highest and lowest closing market price of Shares on the NZX Main Board and the relevant dates during the 6 months before the date on which Tegel received Bounty's takeover notice (being 25 April 2018) were as follows:
- highest closing market price was NZ\$1.45 (on 3 November 2017); and
  - lowest closing market price was NZ\$0.81 (on 28 March 2018).
- (d) The highest and lowest closing market price of Shares on the ASX and the relevant dates during the 6 months before the date on which Tegel received Bounty's takeover notice (being 25 April 2018) were as follows:
- highest closing market price was AU\$1.33 (on 9 November 2017); and
  - lowest closing market price was AU\$0.755 (on 24 April 2018).
- (e) On 26 January 2018, Tegel paid a fully imputed interim dividend of 3.45 cents per share. This dividend payment may have affected the market price of Tegel shares referred to in this paragraph 23. There were, in the six month period prior to the date of this Target Company Statement, no issues of equity securities of Tegel or changes in the equity securities on issue that could have affected the market prices referred to in this paragraph 23.
- (f) There is no other information about the market price of Shares that would reasonably be expected to be material to the making of a decision by Tegel Shareholders to accept or reject the Offer.

## 24 Other information

In preparing this Target Company Statement, Tegel has relied on the completeness and accuracy of information provided by or on behalf of various persons, including Bounty.

## 25 Approval of this Target Company Statement

The contents of this Target Company Statement have been approved by the Independent Director Committee, which has been delegated with authority by the Board to do so. As disclosed in paragraphs 15(d) and (e) above, the other directors of Tegel (Phil Hand, Tang Kok Yew and Brett Sutton) are not members of the Independent Director Committee



because each of them has a potential conflict of interest in respect of the Offer. As a result, they have not approved this Target Company Statement.<sup>2</sup>

## 26 Interpretation

In this Target Company Statement:

**AUS** means Australian dollars;

**ASX** means the Australian Securities Exchange operated by ASX Limited;

**Board** means the board of directors of Tegel;

**Bounty** means Bounty Holdings New Zealand Limited;

**Claris** means Claris Investments Pte. Limited;

**EBITDA** means earnings before interest, tax, depreciation and amortisation;

**FY2017 Performance Rights** means the performance rights granted under the LTI Plan in May 2016;

**FY2018 Performance Rights** means the performance rights granted under the LTI Plan in July 2017;

**Independent Adviser's Report** means the independent adviser's report provided by KordaMentha under Rule 21 of the Takeovers Code and set out in Appendix 3 to this Target Company Statement;

**Independent Director Committee** has the meaning given to it in paragraph 15 of this Target Company Statement;

**Lock-Up Agreement** means the lock-up agreement between Claris, Bounty and Bounty Fresh Food Inc. dated 24 April 2018;

**LTI Plan** means Tegel's equity settled share based incentive plan for senior managers and employees established 20 April 2016;

**NPAT** means net profit after tax;

**NZ\$** or **\$** means New Zealand dollars;

**NZX Main Board** means the main board equity securities exchange operated by NZX;

**NZX** means NZX Limited;

**Offer** has the meaning given to it in paragraph 2 of this Target Company Statement;

**Offer Document** means the offer document dated 28 May 2018, which has been sent to all Tegel Shareholders by Bounty;

**Shares** means the ordinary shares in Tegel;

**Takeovers Act** means the Takeovers Act 1993;

**Takeovers Code** means the Takeovers Code approved by the Takeovers Code Approval Order 2000 (as amended);

**Tegel or the Company** means Tegel Group Holdings Limited; and

**Tegel Shareholders** means the holders of Shares which are the subject of the Offer by Bounty.

<sup>2</sup> Phil Hand has signed this Target Company Statement in his capacity as Chief Executive Officer of Tegel, as required by the Takeovers Code.

## 27 Certificate

To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this Target Company Statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by Tegel under the Takeovers Code.



David Jackson  
Independent Chairman and Director



George Adams  
Director



Philip Hand  
Chief Executive Officer



Peter McHugh  
Chief Financial Officer

## Schedule 1: Ownership of equity securities of Tegel by directors or senior officers and their associates (Paragraph 5)

Name	Number of equity securities held or controlled	Type of equity security	Percentage of total number of equity securities of class <sup>7</sup>
<b>Directors of Tegel</b>			
David Jackson <sup>1</sup>	57,260	Ordinary shares	0.02%
George Adams	32,258	Ordinary shares	0.01%
Philip Hand	645,059	Ordinary shares	0.18%
Tang Kok Yew and Brett Sutton <sup>2</sup>	160,157,782	Ordinary shares	45.00%
<b>Senior officers of Tegel</b>			
<b>Ordinary shares</b>			
Philip Hand	As above	Ordinary shares	As above
Peter McHugh <sup>3</sup>	289,062	Ordinary shares	0.08%
Edward Campion <sup>4</sup>	459,597	Ordinary shares	0.13%
Evelyn Davis <sup>5</sup>	248,183	Ordinary shares	0.07%
Christine Cash	229,796	Ordinary shares	0.06%
Austin Laurenson	91,918	Ordinary shares	0.03%
John Russell <sup>6</sup>	91,918	Ordinary shares	0.03%
Malcolm Clack	25,000	Ordinary shares	0.01%
<b>FY2017 Performance Rights</b>			
Philip Hand	333,333	FY2017 Performance Rights	39.47%
Peter McHugh	113,889	FY2017 Performance Rights	13.48%
Edward Campion	58,889	FY2017 Performance Rights	6.97%
Evelyn Davis	62,037	FY2017 Performance Rights	7.35%
Christine Cash	89,946	FY2017 Performance Rights	10.65%
Austin Laurenson	58,889	FY2017 Performance Rights	6.97%
John Russell	58,889	FY2017 Performance Rights	6.97%

Name	Number of equity securities held or controlled	Type of equity security	Percentage of total number of equity securities of class <sup>7</sup>
<b>FY2018 Performance Rights</b>			
Philip Hand	497,059	FY2018 Performance Rights	40.67%
Peter McHugh	179,412	FY2018 Performance Rights	14.37%
Edward Campion	82,353	FY2018 Performance Rights	6.88%
Evelyn Davis	85,294	FY2018 Performance Rights	7.13%
Christine Cash	147,059	FY2018 Performance Rights	12.29%
Austin Laurenson	82,353	FY2018 Performance Rights	6.88%
John Russell	82,353	FY2018 Performance Rights	6.88%

**Notes:**

1. The Shares are held by Tetley Brook Trustees Limited as trustee of the Tetley Brook Trust of which David Jackson is a beneficiary.
2. The Shares are held by Claris Investments Pte. Limited. Claris is wholly-owned by funds managed and advised by Affinity Equity Partners. Because of their association with Affinity Equity Partners, each of Tang Kok Yew and Brett Sutton are associated with Claris.
3. The Shares are held by Peter McHugh and Stephanie McHugh as trustees of the Hanene Trust of which Peter McHugh is a beneficiary.
4. The Shares are held by Edward Campion, Sandra Campion and Independent Trustees (Canterbury) Limited as trustees of the Campion Family Trust of which Edward Campion is a beneficiary.
5. The Shares are held by Evelyn Davis and Jacqueline Lynch as trustees of the ZES Family Trust of which Evelyn Davis is a beneficiary.
6. The Shares are held by John Russell and Joanna Russell jointly.
7. All percentages have been rounded to two decimal places.



## Schedule 2: Holders or controllers of more than 5% of any class of equity securities of Tegel (Paragraph 5)

Name	Number of equity securities held or controlled	Designation of equity security	Percentage of total number of equity securities of class <sup>1</sup>
<b>Ordinary shares</b>			
Claris Investments Pte. Limited	160,157,782	Ordinary shares	45.00%
Bounty Holdings New Zealand Limited <sup>2</sup>	221,998,905	Ordinary shares	62.38%
<b>FY2017 Performance Rights</b>			
Philip Hand	333,333	FY2017 Performance Rights	39.47%
Peter McHugh	113,889	FY2017 Performance Rights	13.48%
Edward Campion	58,889	FY2017 Performance Rights	6.97%
Evelyn Davis	62,037	FY2017 Performance Rights	7.35%
Christine Cash	89,946	FY2017 Performance Rights	10.65%
Austin Laurenson	58,889	FY2017 Performance Rights	6.97%
John Russell	58,889	FY2017 Performance Rights	6.97%
<b>FY2018 Performance Rights</b>			
Philip Hand	497,059	FY2018 Performance Rights	40.67%
Peter McHugh	179,412	FY2018 Performance Rights	14.37%
Edward Campion	82,353	FY2018 Performance Rights	6.88%
Evelyn Davis	85,294	FY2018 Performance Rights	7.13%
Christine Cash	147,059	FY2018 Performance Rights	12.29%
Austin Laurenson	82,353	FY2018 Performance Rights	6.88%
John Russell	82,353	FY2018 Performance Rights	6.88%

### Notes:

- 1 All percentages have been rounded to two decimal places.
- 2 The number of Shares in which Bounty Holdings New Zealand has a relevant interest includes the 160,157,782 Shares held by Claris which Bounty Holdings New Zealand Limited has a conditional power to acquire pursuant to the Lock-Up Agreement.

### Schedule 3: Equity securities issued to Tegel's directors and senior officers or in which Tegel's directors and senior officers have obtained a beneficial interest under any employee share scheme or other remuneration arrangement in the past two years (paragraph 5)

Name	Position	Number of equity securities	Designation of equity security	Price for which equity securities were issued or provided <sup>1</sup>
<b>FY2018 Performance Rights</b>				
Philip Hand	Senior officer	497,059	FY2018 Performance Rights	Nil
Peter McHugh	Senior officer	179,412	FY2018 Performance Rights	Nil
Edward Campion	Senior officer	82,353	FY2018 Performance Rights	Nil
Evelyn Davis	Senior officer	85,294	FY2018 Performance Rights	Nil
Christine Cash	Senior officer	147,059	FY2018 Performance Rights	Nil
Austin Laurenson	Senior officer	82,353	FY2018 Performance Rights	Nil
John Russell	Senior officer	82,353	FY2018 Performance Rights	Nil

**Notes:**

- 1 The performance rights are issued to participating employees at nil cash cost under an employee long-term incentive scheme and are considered to be part of a participant's overall employee remuneration.

## Schedule 4: Acquisitions or disposals of Shares, FY2017 Performance Rights or FY2018 Performance Rights during the previous six months by persons holding 5% or more of the Shares, FY2017 Performance Rights or FY2018 Performance Rights (paragraph 6)<sup>1</sup>

Acquisition or disposal	Number of equity securities acquired or disposed of	Designation of equity security	Date <sup>2</sup>	Consideration per equity security <sup>3</sup>
<b>Bounty Holdings New Zealand</b>				
Acquisition	3,500,000	Ordinary shares	26 April 2018	\$1.196
Acquisition	14,295,410	Ordinary shares	27 April 2018	\$1.13
Acquisition	4,500,000	Ordinary shares	30 April 2018	\$1.14
Acquisition	11,722,207	Ordinary shares	2 May 2018	\$1.15
Acquisition	10,996,770	Ordinary shares	3 May 2018	\$1.14
Acquisition	659,934	Ordinary shares	4 May 2018	\$1.1360
Acquisition	400,376	Ordinary shares	7 May 2018	\$1.13
Acquisition	316,396	Ordinary shares	8 May 2018	\$1.13
Acquisition	103,793	Ordinary shares	9 May 2018	\$1.13
Acquisition	158,770	Ordinary shares	10 May 2018	\$1.13
Acquisition	50,000	Ordinary shares	11 May 2018	\$1.13
Acquisition	318,129	Ordinary shares	15 May 2018	\$1.1357
Acquisition	232,354	Ordinary shares	16 May 2018	\$1.1357
Acquisition	690,259	Ordinary shares	17 May 2018	\$1.1358
Acquisition	50,535	Ordinary shares	18 May 2018	\$1.13
Acquisition	32,478	Ordinary shares	21 May 2018	\$1.13
Acquisition	1,400,000	Ordinary shares	30 May 2018	\$1.12
Acquisition	212,487	Ordinary shares	31 May 2018	\$1.16
Acquisition	6,446,107	Ordinary shares	1 June 2018	\$1.16
Acquisition	603,893	Ordinary shares	5 June 2018	\$1.16
Acquisition	24,692	Ordinary shares	6 June 2018	\$1.16
Acquisition	1,138,847	Ordinary shares	7 June 2018	\$1.16

### Notes:

1. This information is based on information known to Tegel on 7 June 2018 (being the latest practicable date before the publication of the Target Company Statement).
2. To the extent a transaction listed above consists of multiple transactions on a single day, the number of equity securities listed in the table above is the total number of equity securities acquired on that day.
3. To the extent a transaction listed above consists of multiple transactions on a single day, the consideration listed above is the weighted average consideration per equity security.



# APPENDIX 1

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Half Year FY2018 Interim Report

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**InterimReport**  
2018

Set the table.





## KEY HIGHLIGHTS

### H1'18 UNDERLYING EBITDA<sup>1</sup>

# \$34.6M

H1'17: \$35.1M

### H1'18 NET PROFIT AFTER TAX

# \$14.8M

H1'17: \$15.1M

### POULTRY VOLUMES (TONNES)

# 48,676

H1'17: 48,266

### INTERIM DIVIDEND OF

# 3.45

CENTS PER SHARE



New Zealand domestic poultry revenue up 4% to \$226 million.



Expanding customer base in Australia, new customers across Retail, Foodservice and QSR.

## CONTENTS

### Key Highlights

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**QUICK** *and easy* \_\_\_\_\_  
**SUNDAY** *at dad's* \_\_\_\_\_  
**BACKYARD** *BBQ* \_\_\_\_\_  
**KAI'S** *up* \_\_\_\_\_  
**FAMILY** *favourite* \_\_\_\_\_  
**GRAVY** *please!* \_\_\_\_\_  
**CHICKEN** *roast* \_\_\_\_\_  
**CHRISTMAS** *Turkey!* \_\_\_\_\_  
**SAUSAGES** *and more* \_\_\_\_\_  
**NZ's FAVOURITE** SINCE 1961.

**YUM!**

Tegel Free Range  
Crunchy Burgers

**COVER**

Tegel Free Range  
Roast in the Bag

## DIRECTORS REPORT



**David Jackson**  
CHAIRMAN

**Phil Hand**  
CHIEF EXECUTIVE OFFICER

### Continued solid financial performance

Tegel Group Holdings Limited (Tegel) is pleased to present its interim report for the 26 weeks ended 29 October 2017. Tegel's poultry volume continued to grow, up 0.8% to 48,676 tonnes and revenue up 2% to \$302 million. Within this domestic revenue grew 4.0% to \$226 million. We have also expanded and diversified our customer base in Australia.



#### EXPORTS

Tegel Free Range products exporting to Australia

Highlights for the period compared to the twenty six weeks ended 23 October 2016 include:

- Poultry volume of 48,676 tonnes, up 0.8%
- Revenue of \$302.3 million, up 2.0%
- Underlying EBITDA<sup>1</sup> of \$34.6 million
- Net profit after income tax (NPAT) of \$14.8 million
- Interim dividend of 3.45 cents per share
- Continuing strong growth in the domestic market, volumes increased 1.7%
- Significant progress made in Australia with products launched successfully into Retail, Foodservice and QSR with new customers
- Expanded export markets with a new retail customer in Bahrain
- Continued brand investment with launch of Free Range marketing activity
- Capital investment in the business continued and new farm sites identified to grow capacity

#### Overview

Tegel is pleased to report continued growth in total volumes and revenues for the period. This is against a backdrop of continued strong domestic price competition. Volumes for the FY18 first half were 48.7 thousand tonnes, up 0.8% compared to the prior half year. Revenues were \$302.3 million, up 2.0% over the prior half year.

Underlying EBITDA and NPAT were both solid for the six months despite the impact of additional investment to drive growth, particularly in Australia as we expanded the export sales team, incurred higher distribution costs and established new product lines in new channels. At \$34.6 million for the period, underlying EBITDA was \$0.5 million below the same period for the first half of FY17 and our NPAT earnings of \$14.8 million was \$0.3 million below H1 '17.

As a result of the solid NPAT, adjusted for amortisation of customer contracts, the Board has declared a fully imputed interim dividend for the first half of 3.45 cents per share. This will be paid on 26 January 2018.

1. Underlying EBITDA refers to earnings before interest, tax, depreciation and amortisation and excludes the effects of certain IFRS fair value adjustments and items that are of a non-recurring nature. Underlying EBITDA is a non GAAP measure. A reconciliation is provided in note 2.1 of the interim financial statements.



SUMMARY FINANCIALS NZD million	HI'18 26 WEEKS	HI'17 26 WEEKS	VARIANCE	VARIANCE %
Poultry volumes (tonnes)	<b>48,676</b>	48,266	410	0.8%
Revenue	<b>302.3</b>	296.3	6.0	2.0%
Cost of goods sold (COGS)	<b>(232.0)</b>	(227.6)	(4.4)	(1.9%)
Gross Profit	<b>70.3</b>	68.7	1.6	2.4%
Gross Profit %	<b>23.3%</b>	23.2%	–	0.4%
Expenses	<b>(35.8)</b>	(33.6)	(2.2)	(6.7%)
Underlying EBITDA <sup>1</sup>	<b>34.6</b>	35.1	(0.5)	(1.7%)
Net profit after tax (NPAT)	<b>14.8</b>	15.1	(0.3)	(2.3%)
Interim Dividend (cents per share)	<b>3.45</b>	3.45	–	–

## Delivering Strategy

The FY17 annual report outlined Tegel's plans for future growth. Tegel is well on track to achieving its strategic goals for the year.

In the domestic market, Tegel has maintained market share<sup>2</sup> and we have continued to drive growth in poultry consumption. Domestic volumes were up 1.7% for the year. This was mainly from higher volumes through QSR and Foodservice channels. The changing trends of New Zealanders looking for increasingly convenient meal solutions is being reflected in growth in QSR and Foodservice channels. The benefit of our strategy is that we are across all channels.

Domestic revenue for the half year was \$226.1 million, up \$8.6 million or 4.0% which is a higher percentage than domestic volume growth. We are closely monitoring pricing and are looking for any opportunities through product mix whilst maintaining market share. Higher margin products continue to sell well and have contributed favourably to our overall domestic return.

Our ongoing investment in the Tegel brand is producing lasting positive results, and we continue to focus on product innovation, particularly in the free range and value added meal solution space.

Export volume was down for the half year by 290 tonnes, while export revenue was down by \$5.8 million compared to the first half of FY17. This was in line with expectations and was primarily due to Australian

volumes and revenue being lower due to one customer taking their volumes in-house.

Tegel's strategy in Australia is to diversify across channels and customers, and this is starting to deliver results. Compared to this time last year, Tegel now has additional customers in Australia. Also, during the last six months, we have launched new products into the Retail market in Australia. These products are across frozen value added and chilled categories including cooked and smoked products. It has been particularly satisfying to see the significant national distribution of Tegel's product range to our new retail customer. Tegel is excited about the breadth of distribution of many of our products across Australia.

Continued expansion of the office in Australia is important to ensure we have a team dedicated to provide the right support to our increasing customer base. Delivering products to a wider distribution network across Australia has incurred higher distribution costs. However as sales increase, costs will be optimised through scale.

In our other export markets, Tegel saw strong performance with growth in volumes and revenue into the Pacific Islands. In the Middle East we continued to build on our position by launching new products.

In August of this year, we further increased our international presence with the launch of Tegel into one of the major supermarket chains in Bahrain.

2. Aztec Retail Scan data October 2017 and Management estimates for non-retail channels.

The fundamentals of this market are attractive as an estimated 80% of the country's meat consumption is chicken, accounting for approximately 46kg per person each year. This compares to 39kg per person in New Zealand. Tegel's products resonate well as our offering is for the supply of premium products (made from 100% breast meat) which is increasingly being sought by discerning local consumers as well as by Western expatriate communities.

### Operational highlights

Tegel has continued to invest in agriculture and processing assets that are supporting sales growth, efficiency gains and savings. We have commenced our New Plymouth hatchery expansion. In addition we have acquired the land and buildings adjoining our feedmill in New Plymouth. This will allow us to expand capacity at that site in line with our growth aspirations.

We remain focused on cost saving initiatives and continuous improvements with further rollout of our SIMPLIFY! programme.

At the end of October, Bridget Coates was appointed to the Board as an independent Director. Bridget comes to Tegel as a current and former Director on a number of global listed company Boards. In addition, she has a strong track record in driving international business growth through innovation, relationships, brands and marketing and we are very delighted to welcome her to the Tegel Board.

Building on the success of Tegel's brand refresh last year, we continued to invest in our brand. The most recent campaign focused on bringing to life our Free Range offering. For the first time we have started to tell our farming story. By giving an insight into our farming practices and animal welfare we are providing greater transparency and are continuing the journey to enhance understanding of poultry farming as being cage free, no added hormones and New Zealand raised. Tegel poultry is bred and raised on over 130 farms around New Zealand. We're incredibly proud of our farmers and we enjoy a close working relationship. Together we produce poultry in a sustainable way with a minimal impact on our environment. We also enjoy a world class feed conversion ratio due to a favourable growing environment.



### Free Range Growth

As we look at the parts of our business which are providing the best opportunities for growth, we are responding to the changing needs of our consumer. We recognise that increasingly people want to feel good about the things they consume. This means being aware of what is in their food and a willingness to pay more for food that is ethically and sustainably produced. As a result there is greater demand for Free Range chicken and we are delivering significant growth in this area, ahead of the market.

Tegel's focus on new product development and responding to this demand allows us to develop and sell more higher value products. On the export side, new products launched to our customers are establishing and growing the premium, Free Range category.

On the Agriculture side of the business, as free range demand increases, we are constructing free range sheds while also converting existing farms to free range. Tegel is excited to confirm that we will have a new farm at Chertsey just south of Christchurch. Consent has been granted for an eight shed farm which will be run by a contract grower. Earthworks there have commenced and we expect the first shed to be completed in March 2018.

## Financial Overview

POULTRY VOLUME TONNES	HI'18 26 WEEKS	HI'17 26 WEEKS	VARIANCE TONNES	VARIANCE %
Domestic	<b>40,769</b>	40,069	700	1.7%
Export	<b>7,907</b>	8,197	(290)	(3.5%)
Total	<b>48,676</b>	48,266	410	0.8%

REVENUE NZD MILLION	HY18	HY17	VARIANCE \$	VARIANCE %
Domestic	<b>226.1</b>	217.5	8.6	4.0%
Export	<b>44.8</b>	50.6	(5.8)	(11.5%)
Other <sup>3</sup>	<b>31.4</b>	28.2	3.2	11.4%
Total	<b>302.3</b>	296.3	6.0	2.0%

3. Other revenue includes sales of eggs, day-old-chicks, feed and offal.

Both poultry volumes and revenue for the 26 weeks ended 29 October 2017 exceeded those of the comparative period. Total poultry volumes increased to 48.7 thousand tonnes. Revenue was up 2.0% to \$302.3 million driven by improved price/mix and higher value added product.

Gross Profit was also ahead on the same period last year, delivering an improved gross margin of 23.3%. Meanwhile in a rising cost environment, Tegel delivered Underlying EBITDA of \$34.6 million and Net Profit After Tax of \$14.8 million which was slightly behind the comparative period.

Tegel is benefiting this year from a lower commodity pricing environment compared to last year. However, higher costs have been incurred due to additional investment to drive growth, particularly in Australia as we expanded the export sales team, incurred higher distribution costs and established new product lines in new channels. Tegel continues to invest in brand and marketing. We also continue to ensure we have the right people in the right roles with the appropriate structures in place, particularly as we grow our exports.

During the six months Tegel also incurred a number of non-repeating costs which have been taken below the line. These include \$0.7 million related to the Kaikoura earthquake which we have previously communicated.

## EASY

Tegel Free Range  
Chilli Lime Kebabs



In addition we have recognised one-off compliance costs of \$0.5 million as we work with the industry to align catching procedures.

Tegel continues to have a strong balance sheet, with improved working capital compared to the FY17 year end. As is typical with this business and consistent with our interim results last year, the timing of our balance date can impact significantly on the level of working capital.

Again this half year Tegel had a grain boat arrive into our inventories towards the end of our reporting period resulting in higher stock of raw materials. The level of finished goods inventories, up \$9.3 million to \$59.4 million, supports our usual summer seasonal demand, higher sales as well as our export requirements.

As a result of the investments in production capability outlined previously, non-current assets were up by \$8.3 million in the half year.

Due to timing of cashflows, cash decreased \$11.8 million and we ended the half year with \$1.6 million in cash.

In addition some key movements impacted cash for the half year. Tegel's operating cash flows saw outflows of

\$3.6 million for the half year. This was an improvement on prior period outflows of \$18.2 million which included one-off expenses relating to the public listing of Tegel.

In terms of financing activities, a new banking facility was negotiated, with all bank borrowings repaid and a new three year facility being advanced. The working capital portion of this facility has been extended by \$10 million to \$50 million. These facilities expire in October 2020. Finally, the company paid \$14.6 million in the half year relating to the final dividend for FY17. No dividends were paid in the prior half year.

### Dividend

The Tegel Board has declared an interim dividend. The fully imputed interim dividend for the first half of FY18 of 3.45 cents per share will be paid on 26 January 2018. This compares to the 3.45 cents per share interim dividend paid last year.

Tegel's dividend policy remains unchanged. It is the Board's intention to target a dividend payout ratio in the range of 60-75% of annual NPAT excluding the expense relating to the non-cash amortisation of customer contracts.

### QUICK CUISINE!

Tegel Free Range Meal Maker  
Cracked Pepper Shredded Chicken





## Outlook

Tegel's performance in the first half has been solid. Tegel has continued to drive innovative New Product Development, while responding to the demands of our customers. We are competing well both domestically and on the export front without compromising our strategy.

However, as anticipated, the half year also had its challenges. Domestic pricing remains competitive and this will continue. Being the largest poultry producer provides us with scale and we will continue to focus on maintaining market share. We expect increased poultry consumption as the population continues to grow and the competition for protein still lies in favour of poultry.

We recently launched an exciting summer BBQurious campaign and we will continue to drive growth through the summer season with new products and continued investment in advertising. In our export markets we will further support the roll out of new products in Australia through promotional activity, and drive incremental growth off the initial base we established in the first half.

Our export team are working hard to increase products and volumes to our Asian and new markets such as Bahrain.

Total capital expenditure will be ahead of the amount initially forecast mainly due to the New Plymouth feedmill additional land acquisition which will come through this year. We will continue with our other planned projects including the hatchery expansion in New Plymouth, continued brand investment and new product innovation.

We continue to control our costs and drive efficiencies within the business through the ongoing roll out of SIMPLIFY!. Looking ahead we do however see a number of cost pressures coming through. These incremental costs include higher labour rates, higher fuel costs and higher catching costs. Higher distribution costs will continue from export products particularly to Australia. It is also important to us to continue to ensure our animal welfare objectives are met.

Looking at the remainder of FY18, we will maintain our domestic market share in a challenging pricing environment. Our Australian exports have diversified into more channels and customers. We continue to work towards exceeding FY17 underlying EBITDA.

Finally, the Board would like to acknowledge the contribution of our people to Tegel's success. Recently we had our annual long service awards for employees across all parts of our business, recognising the loyalty our staff have given to the company. 169 employees received long service awards adding up to over 2,240 years of combined service. We are also very much future focused, delivering on our strategy and optimising capability across the business to support our planned growth. The skill, effort and dedication of our employees drives the success we are achieving. Tegel continues to be focused on delivering long term sustainable growth.



**David Jackson**  
Chairman



**Phil Hand**  
Chief Executive Officer

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE INCOME

For the period ended 29 October 2017

	Notes	Unaudited 6 months 29 Oct 17 \$'000	Unaudited 6 months 23 Oct 16 \$'000
Revenue		<b>302,327</b>	296,299
Cost of sales		<b>(231,970)</b>	(227,597)
<b>Gross profit</b>		<b>70,357</b>	68,702
Expenses			
Distribution		<b>(28,659)</b>	(25,582)
Administration		<b>(18,173)</b>	(18,086)
Other		<b>(128)</b>	(112)
Finance income		<b>29</b>	49
Finance costs		<b>(2,826)</b>	(3,557)
<b>Profit before income tax</b>		<b>20,600</b>	21,414
Income tax expense	6.1	<b>(5,831)</b>	(6,299)
<b>Profit for the year attributable to shareholders of the parent</b>	2.1	<b>14,769</b>	15,115
<b>Other comprehensive income:</b>			
<i>Items that will be subsequently reclassified to profit and loss</i>			
Cash flow hedges, net of tax		<b>1,045</b>	711
<b>Total other comprehensive income for the year, net of tax</b>		<b>1,045</b>	711
<b>Total comprehensive income for the year</b>		<b>15,814</b>	15,826
<b>Basic earnings per share (cents)</b>	5.3	<b>4.15</b>	4.39
<b>Diluted earnings per share (cents)</b>	5.3	<b>4.14</b>	4.38

## BALANCE SHEET

As at 29 October 2017

	Notes	Unaudited 29 Oct 17 \$'000	Audited Restated 30 Apr 17 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,633	13,406
Trade and other receivables		93,977	63,258
Inventories	3.1	99,905	84,864
Derivative financial instruments		3,728	1,635
Biological assets		32,672	32,872
<b>Total current assets</b>		<b>231,915</b>	196,035
<b>Non-current assets</b>			
Property, plant and equipment	4.1	169,330	163,663
Receivables		197	329
Intangible assets	4.2	345,760	342,988
<b>Total non-current assets</b>		<b>515,287</b>	506,980
<b>Total assets</b>		<b>747,202</b>	703,015
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Tax payable		4,626	3,113
Derivative financial instruments		2,001	1,978
Trade and other payables		82,031	66,600
<b>Total current liabilities</b>		<b>88,658</b>	71,691
<b>Non-current liabilities</b>			
Deferred tax liabilities	6.1	25,572	29,213
Borrowings	5.1	149,511	120,000
<b>Total non-current liabilities</b>		<b>175,083</b>	149,213
<b>Total liabilities</b>		<b>263,741</b>	220,904
<b>Net assets</b>		<b>483,461</b>	482,111
<b>EQUITY</b>			
Issued capital	5.2	427,121	427,121
Reserves		1,611	438
Retained earnings		54,729	54,552
<b>Total equity</b>		<b>483,461</b>	482,111

For and on behalf of the board, who authorised these financial statements for issue on 6 December 2017.



David Jackson  
CHAIRMAN



Phil Hand  
CHIEF EXECUTIVE OFFICER

**STATEMENT OF CHANGES IN EQUITY**

For the period ended 29 October 2017

	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 24 April 2016 (audited)	284,423	(3,149)	32,586	313,860
Profit for the period	–	–	15,115	15,115
Other comprehensive income for the period, net of tax	–	711	–	711
Total comprehensive income	–	711	15,115	15,826
Movement in fair value of share based payment reserve	–	112	–	112
Shares redeemed during the period	(264,158)	–	–	(264,158)
Issue of shares during the period net of issue costs	406,873	–	–	406,873
	142,715	112	–	142,827
Balance at 23 October 2016 (unaudited)	427,138	(2,326)	47,701	472,513
Balance at 30 April 2017 (audited)	<b>427,121</b>	<b>438</b>	<b>54,552</b>	<b>482,111</b>
Profit for the period	–	–	14,769	14,769
Other comprehensive income for the period, net of tax	–	1,045	–	1,045
Total comprehensive income	–	1,045	14,769	15,814
Movement in fair value of share based payments reserve	–	128	–	128
Dividends paid	–	–	(14,592)	(14,592)
Supplementary dividends paid	–	–	(514)	(514)
Foreign investor tax credit	–	–	514	514
	–	128	(14,592)	(14,464)
Balance at 29 October 2017 (unaudited)	<b>427,121</b>	<b>1,611</b>	<b>54,729</b>	<b>483,461</b>



## STATEMENT OF CASH FLOWS

For the period ended 29 October 2017

	Notes	Unaudited 6 months 29 Oct 17 \$'000	Unaudited 6 months 23 Oct 16 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		<b>278,272</b>	287,664
Net GST (paid) / received		<b>(1,634)</b>	310
Income tax paid		<b>(8,366)</b>	(7,239)
Payments to suppliers		<b>(206,241)</b>	(220,574)
Payments to employees		<b>(65,648)</b>	(76,728)
Other operating expenses related to listing		–	(1,652)
<b>Net cash outflow from operating activities</b>	3.2	<b>(3,617)</b>	(18,219)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		<b>(13,919)</b>	(14,987)
Payments for intangibles		<b>(4,271)</b>	(1,206)
Increase in non current assets and other		<b>(575)</b>	(65)
<b>Net cash outflow from investing activities</b>		<b>(18,765)</b>	(16,258)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		<b>189,925</b>	30,000
Issue of ordinary shares		–	418,577
Redemption of redeemable shares		–	(264,158)
Repayment of principal on borrowings		<b>(159,925)</b>	(130,000)
Payment of interest and financing costs		<b>(4,799)</b>	(3,559)
Payment of costs related to listing		–	(11,270)
Payment of dividends		<b>(14,592)</b>	–
<b>Net cash inflow from financing activities</b>		<b>10,609</b>	39,590
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(11,773)</b>	5,113
Cash and cash equivalents at the beginning of the financial year		<b>13,406</b>	4,002
<b>Cash and cash equivalents at end of year</b>		<b>1,633</b>	9,115

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 29 October 2017

## 1 BASIS OF PREPARATION

### 1.1 GENERAL INFORMATION

Tegel Group Holdings Limited (the Company) and its subsidiaries (together the Group) is a fully integrated poultry producer, involved in the breeding, hatching, processing, marketing and distribution of poultry products.

These interim consolidated financial statements are for the 26 week period ended 29 October 2017. The comparative period represents the 26 week period ended 23 October 2016.

### 1.2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The interim consolidated financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP) and the Financial Markets Conduct Act 2013. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations.

The accounting policies and methods of computation used in the preparation of these interim financial statement are consistent with those used in the 2017 annual financial statements except as outlined below. The interim financial statements have been prepared in accordance with NZ IAS 34 – Interim Financial Reporting and IAS 34 – Interim Financial Reporting, and should be read in conjunction with the 2017 annual financial statements.

#### *Critical accounting judgements, estimates and assumptions*

There have been no changes in critical judgements, estimates and assumptions outlined in the 2017 annual financial statements.

#### *Changes in accounting policies*

In 2011, on acquisition of the Tegel business, the Group recognised an indefinite life brand with a fair value of \$33.5 million. No deferred tax was recognised in relation to this asset at the time of the acquisition. This was based on the assumption that because an indefinite life brand is not amortised, its carrying amount is not expected to be consumed, rather, its carrying amount is expected to be recovered entirely through sale.

In November 2016, the IFRS Interpretations Committee (IFRIC) issued an agenda decision regarding the determination of the expected manner of recovery of intangible assets with indefinite useful life for the purposes of measuring deferred tax, in accordance with IAS 12 Income Taxes. This provided additional guidance on how an entity recovers the carrying value of such assets and the consequences for the measurement and recognition of deferred tax.

As a result of this additional guidance, the Group has recognised a deferred tax liability of \$9.4 million on brands, with a corresponding increase in the carrying amount of the generated goodwill. There has been no impairment of the goodwill or brands since the acquisition. Comparatives for goodwill and deferred tax liability have been restated and both increased by \$9.4 million.

### 1.3 SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

The financial position and performance of the Group was affected by the following significant events and transactions during the reporting period:

#### *Refinance*

On 10 October 2017, a new banking facility was negotiated, resulting in all bank borrowing being repaid and a new three year facility being advanced to the Group. For more details see note 5.1 Borrowings.

## 2 PERFORMANCE

### 2.1 SEGMENT REPORTING

The Group operates in one industry, being the manufacture and sale of poultry products. Management makes resource allocation decisions based on expected cash flows and results of the Group's operations as a whole and the Group therefore has one segment.

A key performance measure reviewed by management is underlying earnings before interest, tax, depreciation, amortisation, fair value adjustments to biological assets and share based payments, and unrealised gains and losses on foreign exchange (underlying EBITDA). This is adjusted for significant one off items.

Revenues of approximately 42% (2017: 42%) are derived from two customers with greater than 10% of revenue.

	Unaudited 6 months 29 Oct 17 \$'000	Unaudited 6 months 23 Oct 16 \$'000
<b>Underlying EBITDA</b>	<b>34,559</b>	35,141
Unrealised losses on foreign exchange revaluations	(38)	(283)
Fair value adjustment to biological assets	–	(158)
Share based payments	(128)	(112)
Settlement of historical legal and other claims	(12)	(116)
Kaikoura earthquake costs and other distribution costs	(708)	–
Industry compliance costs	(525)	–
<b>EBITDA</b>	<b>33,148</b>	34,472
Depreciation	(8,252)	(7,943)
Amortisation	(1,499)	(1,606)
Net finance costs	(2,797)	(3,509)
<b>Profit before tax</b>	<b>20,600</b>	21,414
Income tax expense	(5,831)	(6,299)
<b>Profit after tax</b>	<b>14,769</b>	15,115

The Group sells to many different countries with all sales originating from New Zealand.

	Unaudited 6 months 29 Oct 17 \$'000	Unaudited 6 months 23 Oct 16 \$'000
<b>Revenue</b>		
Domestic	<b>257,564</b>	245,673
Export	<b>44,763</b>	50,626
<b>Total revenue</b>	<b>302,327</b>	296,299

### 3 WORKING CAPITAL

#### 3.1 INVENTORIES

	Unaudited 29 Oct 17 \$'000	Audited 30 Apr 17 \$'000
Raw materials	<b>34,551</b>	29,159
Finished goods	<b>59,356</b>	50,012
Spare parts and consumables	<b>5,998</b>	5,693
	<b>99,905</b>	84,864

Raw materials of \$9.7 million (2017: \$12.3 million) have been pledged as security for trade payables. The remaining inventory is secured under bank borrowings.

#### 3.2 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Unaudited 6 months 29 Oct 17 \$'000	Unaudited 6 months 23 Oct 16 \$'000
Profit for the year	<b>14,769</b>	15,115
<b>Adjusted for</b>		
Depreciation	<b>8,252</b>	7,943
Amortisation	<b>1,499</b>	1,606
Movements in working capital due to derivatives	<b>(618)</b>	(1,281)
Movements related to deferred tax	<b>(4,047)</b>	(284)
Other amounts not involving cash flows	<b>859</b>	112
<b>Impact of changes in working capital items</b>		
Increase in debtors and prepayments	<b>(30,719)</b>	(4,338)
Increase / (decrease) in creditors and provisions	<b>15,431</b>	(14,343)
Increase in inventories	<b>(15,041)</b>	(15,294)
Decrease in deferred IPO costs	<b>–</b>	12,246
Decrease in provisions and other current liabilities	<b>–</b>	(21,463)
Increase / (decrease) in current tax liabilities	<b>1,513</b>	(658)
Decrease / (increase) in biological assets	<b>200</b>	(705)
<b>Less items classified as financing activities:</b>		
Payment of costs related to listing and subsequently netted in equity	<b>–</b>	(434)
Interest paid / financing transaction costs classified as financing	<b>4,285</b>	3,559
<b>Net cash inflow from operating activities</b>	<b>(3,617)</b>	(18,219)



## 4 LONG TERM ASSETS

### 4.1 PROPERTY, PLANT AND EQUIPMENT

	Capital work in progress \$'000	Freehold land \$'000	Buildings \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000
<b>At 30 April 2017 (audited)</b>						
Cost	7,632	9,088	41,381	180,829	654	239,584
Accumulated depreciation	–	–	(5,631)	(69,838)	(452)	(75,921)
Net book amount	7,632	9,088	35,750	110,991	202	163,663

#### 6 months ending 29 October 2017 (unaudited)

Opening net book amount	7,632	9,088	35,750	110,991	202	163,663
Additions	13,919	–	–	–	–	13,919
Transfer of work in progress	(4,942)	–	659	4,283	–	–
Depreciation charge	–	–	(1,063)	(7,155)	(34)	(8,252)
Closing net book amount	16,609	9,088	35,346	108,119	168	169,330

#### At 29 October 2017 (unaudited)

Cost	16,609	9,088	42,038	185,775	665	254,175
Accumulated depreciation	–	–	(6,692)	(77,656)	(497)	(84,845)
Net book amount	16,609	9,088	35,346	108,119	168	169,330

### 4.2 INTANGIBLE ASSETS

	Goodwill \$'000	Customer Relationships \$'000	Brands \$'000	Computer software \$'000	Other intangible assets \$'000	Total \$'000
<b>At 30 April 2017 (audited)(restated)</b>						
Cost	263,958	56,900	33,500	10,143	1,283	365,784
Accumulated amortisation	–	(13,656)	–	(7,936)	(1,204)	(22,796)
Net book amount	263,958	43,244	33,500	2,207	79	342,988

#### Period ending 29 October 2017 (unaudited)

Opening net book amount	263,958	43,244	33,500	2,207	79	342,988
Additions	–	–	–	3,895	376	4,271
Amortisation charge	–	(1,138)	–	(196)	(165)	(1,499)
Closing net book amount	263,958	42,106	33,500	5,906	290	345,760

#### At 29 October 2017 (unaudited)

Cost	263,958	56,900	33,500	14,038	1,659	370,055
Accumulated amortisation	–	(14,794)	–	(8,132)	(1,369)	(24,295)
Net book amount	263,958	42,106	33,500	5,906	290	345,760

There have been no indicators of impairment that would require a revision to the assessment of goodwill from the 2017 annual financial statements.

### 4.3 COMMITMENTS

#### (a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Unaudited 29 Oct 17 \$'000	Audited 30 Apr 17 \$'000
Property, plant and equipment and intangibles	<b>17,923</b>	8,985
	<b>17,923</b>	8,985

## 5 BORROWINGS AND EQUITY

### 5.1 BORROWINGS

	Unaudited 29 Oct 17 \$'000	Audited 30 Apr 17 \$'000
<b>Secured</b>		
<b>Non current</b>		
Bank borrowings at amortised cost	<b>149,511</b>	120,000
Total interest bearing liabilities	<b>149,511</b>	120,000

The banking arrangements include a working capital facility which is included within bank borrowings above.

	Unaudited 29 Oct 17 \$'000	Audited 30 Apr 17 \$'000
<b>Bank loan facilities</b>		
Working capital facilities	<b>50,000</b>	40,000
Unused at balance date	<b>20,000</b>	40,000

On 10 October 2017, a new banking facility was negotiated, resulting in all bank borrowings being repaid. A new three year facility was advanced to the Group. The new arrangements are a facility of \$120.0 million and a working capital facility of \$50.0 million with both expiring in October 2020.

Interest is calculated at the BKBM floating base rate plus a margin.

The borrowings are subject to borrowing covenant arrangements. The Group has complied with all covenants during the period. Bank borrowings are secured over the assets of the Group.

The loans of the Group incurred interest at rates from 3.1% to 3.6% (30 April 2017: 3.2% to 4.9%).

## 5.2 SHARE CAPITAL

Share Capital	Ordinary shares	
	Number on issue	Value \$'000
At 30 April 2017 (audited)	<b>355,906</b>	427,121
At 29 October 2017 (unaudited)	<b>355,906</b>	427,121

## 5.3 EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares on issue during the year. Diluted earnings per share assumes conversion of all dilutive potential ordinary shares in determining the weighted average number of ordinary shares on issue.

	Unaudited 6 months 29 Oct 17 \$'000	Unaudited 6 months 23 Oct 16 \$'000
Profit attributable to shareholders	<b>14,769</b>	15,115
Weighted average number of ordinary shares for basic earnings per share	<b>355,906</b>	344,036
Effect of dilutive ordinary shares:		
– Performance rights	<b>894</b>	864
Weighted average number of ordinary shares for diluted earnings per share	<b>356,800</b>	344,900
Basic earnings per share (cents)	<b>4.15</b>	4.39
Diluted earnings per share (cents)	<b>4.14</b>	4.38

## 5.4 DIVIDENDS PAID

Dividends are recognised as a liability in the Group's financial statements in the period in which they are declared by the Board.

	Unaudited 6 months 29 Oct 17		Unaudited 6 months 23 Oct 16	
	\$'000	Cents per share	\$'000	Cents per share
<b>Dividends paid during the period</b>				
2017 final dividend (fully imputed)	<b>14,592</b>	<b>4.10</b>	–	–
<b>Dividends declared after balance date</b>				
2017 interim dividend (fully imputed)	–	–	<b>12,279</b>	<b>3.45</b>
2018 interim dividend (fully imputed)	<b>12,279</b>	<b>3.45</b>	–	–

## **6 OTHER**

### **6.1 TAXATION**

Income tax expense of \$5.8 million is recognised based on management's best estimate of the effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the period to 29 October 2017 is 28% (23 October 2016: 28%).

### **6.2 CONTINGENCIES**

As at 29 October 2017 the Group had no contingent liabilities or assets.

### **6.3 SIGNIFICANT EVENTS AFTER BALANCE DATE**

On 6 December 2017 the Board approved the payment of a fully imputed 2018 interim dividend of \$12.3 million (3.45 cents per share) to be paid on 26 January 2018. In addition, a supplementary dividend totalling approximately \$0.3 million (0.61 cents per share) was also approved for eligible non-resident shareholders.



# INDEPENDENT REVIEW REPORT

To the Directors of Tegel Group Holdings Limited



## Report on the Interim financial statements

We have reviewed the accompanying consolidated financial statements of Tegel Group Holdings Limited (the Company) on pages 8 to 18, which comprise the balance sheet as at 29 October 2017, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes. The Group comprises of the Company and the entities it controlled at 29 October 2017 or during the period then ended.

## Directors responsibility for the financial statements

The Directors are responsible on behalf of the Company for the preparation and presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Our responsibility

Our responsibility is to express a conclusion on the accompanying consolidated financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual consolidated financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on these consolidated financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of tax compliance and advisory, treasury policy advice and other assurance services. The provision of these other services has not impaired our independence.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Company are not prepared, in all material respects, in accordance with NZ IAS 34.

## Who we report to

This report is made solely to the Company's Directors, as a body. Our review work has been undertaken so that we might state to the Company's Directors those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

Chartered Accountants  
6 December 2017

Auckland

# CORPORATE DIRECTORY

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## Board of Directors

David Jackson (Chairman)  
Phil Hand (Chief Executive Officer)  
Tang Kok Yew  
Brett Sutton  
Bridget Coates  
George Adams

## Auditor

PricewaterhouseCoopers  
188 Quay Street  
Auckland

## Lawyers

Minter Ellison Rudd Watts  
Lumley Centre  
88 Shortland St  
Auckland 1010

## Tegel Group Holdings Limited

Ticker: TGH  
Dual listed on the NZX and ASX  
NZ Company number: 3233930  
ARB number: 611 273 539

## Registered Office and principal administration office

100 Carlton Gore Road  
Newmarket  
Auckland, 1023

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1 Farrer Place  
Sydney, NSW 2000  
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## Postal Address

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## Telephone

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+64 9 977 9002

## Investor Relations

[Investorrelations@tegel.co.nz](mailto:Investorrelations@tegel.co.nz)

## Share Registry

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Auckland 0622, New Zealand  
+64 9 488 8777  
[enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

Computershare Investor Services Pty Limited  
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+61 3 9415 4083  
[enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

## Website

[www.tegel.co.nz](http://www.tegel.co.nz)

**CHRISTMAS, DONE!**

Tegel Free Range Boneless Roast Turkey  
with Cranberry Stuffing





[www.tegel.co.nz](http://www.tegel.co.nz)



# APPENDIX 2

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FY2018 Financial Statements

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# FINANCIAL STATEMENTS

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– As at 29 April 2018



## Directors' Statement

The Board of Directors are pleased to present the consolidated financial statements for Tegel Group Holdings Limited, and the auditors' report, for the year ended 29 April 2018.

The Directors present financial statements for each financial year which fairly present the financial position of the Group and its financial performance and cash flows for that period.

The Directors consider the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The Board of Directors of Tegel Group Holdings Limited authorised these financial statements presented on pages 4 to 28 for issue on 11 June 2018.

For and on behalf of the Board.



**David Jackson**  
Director



**Phil Hand**  
Director

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## Independent Auditors' Report

To the shareholders of Tegel Group Holdings Limited

The consolidated financial statements comprise:

- the balance sheet as at 29 April 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the consolidated financial statements of Tegel Group Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 29 April 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

### Basis for qualified opinion

The Group has a goodwill balance of \$264 million at balance date. As set out in Note 4.2 (b) to the consolidated financial statements the Directors completed their year end impairment test and concluded that the goodwill balance is not impaired. The goodwill assessment is based on the Group's internal value in use calculation using specific assumptions over five year cash flows and the cash flows beyond five years extrapolated using a terminal growth rate of 3% consistent with prior years.

A takeover offer has been made by Bounty Holdings New Zealand Limited (Bounty) for all the shares in the Company at \$1.23 per share. Claris Investments Pte who hold 45% of the Company's shares has entered into an agreement with Bounty to accept the offer in respect of its entire shareholding subject to certain conditions. Bounty had also acquired 13.49% of the Company's shares on the market in the period between announcing the offer and 29 May 2018. The offer at a price of \$1.23 also permits the payment of a dividend of up to 4.1 cents per share prior to the closing of the offer. The valuation of the Company at the net price of \$1.27 per share implies a goodwill impairment of approximately \$31 million.

An independent adviser report in relation to the full takeover offer has also been prepared by an independent firm and assessed the standalone valuation of the Company at between \$1.15 to \$1.39 per share. The mid point of this valuation is also \$1.27 per share. The valuation of the Company using a price of \$1.15 per share implies a goodwill impairment of approximately \$74 million and the valuation of the Company using a price of \$1.39 per share implies that there is no impairment of goodwill.

Based on our review of all the documentation we have concluded that the goodwill balance should be impaired by approximately \$31 million.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of Tax compliance, Tax consulting, Treasury advisory services, Remuneration benchmarking services and Agreed upon procedures at the Annual General Meeting. The provision of these other services has not impaired our independence as auditor of the Group.

### Our audit approach

#### Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: \$1.8 million, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We have determined that in addition to the matter described in the Basis for qualified opinion section there is one key audit matter:

- Biological Assets (fair value measurement)





## Independent auditor's report (continued)

### Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

### Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our qualified opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for qualified opinion* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p><b>Biological assets (fair value measurement)</b></p> <p>Biological assets are measured at fair value in accordance with the relevant accounting standards.</p> <p>Biological assets are transferred to inventory at fair value less estimated costs to sell at date of harvest. As described in note 3.3 to the consolidated financial statements, management estimations and judgements are required in determining the fair value of biological assets as unobservable inputs are used.</p> <p>Key inputs to the model used in determining fair value include:</p> <ul style="list-style-type: none"> <li>• Price achieved in market for feed, eggs and day old chicks;</li> <li>• Age of birds, feed conversion rates and mortality;</li> <li>• Eggs produced; and</li> <li>• Quantity of birds and eggs on hand.</li> </ul> <p>Given the magnitude of biological assets of \$35.1 million, as disclosed in note 3.3 in the financial statements, complexity of the calculations and significant management estimation and judgement involved, we have focused our audit on calculation of the fair value.</p>	<p>We have obtained an understanding of the processes and controls adopted by management to determine the fair value of biological assets and inventory valuation at the point of harvest.</p> <p>We have re-performed the calculation of the fair value less cost to sell of the biological assets agreeing key inputs to the calculations and critically assessing the significant assumptions made. This included:</p> <ul style="list-style-type: none"> <li>• Agreeing price achieved for feed, eggs and day old chicks against historical invoices;</li> <li>• Agreeing age of birds, feed conversion rates and mortality rates against historical data;</li> <li>• Agreeing eggs produced, harvested birds and feed consumed to the agriculture system reports;</li> <li>• Testing agriculture system reports on a sample basis by agreeing the reported information to the individual farm records; and</li> <li>• Confirming a sample of quantity of birds and eggs on hand used in the calculation with the breeder farm.</li> </ul> <p>No matters arose from undertaking the above procedures.</p>

### Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not, and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.



### Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.

### Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Leopino (Leo) Foliaki.

For and on behalf of:

Chartered Accountants  
11 June 2018

Auckland

## Statement of Comprehensive Income

For the year ended 29 April 2018

	Notes	2018 \$'000	2017 \$'000
Revenue		615,435	613,978
Cost of sales		(478,109)	(468,922)
<b>Gross profit</b>		<b>137,326</b>	<b>145,056</b>
Other income	2.1	1,996	–
Expenses	6.2		
Distribution		(59,890)	(53,173)
Administration		(36,803)	(37,595)
Other		(496)	(392)
Finance income		73	132
Finance costs		(6,333)	(6,150)
<b>Profit before income tax</b>		<b>35,873</b>	<b>47,878</b>
Income tax expense	6.1	(9,768)	(13,633)
<b>Profit for the year attributable to shareholders of the parent</b>	2.1	<b>26,105</b>	<b>34,245</b>
<b>Other comprehensive income:</b>			
<i>Items that will be subsequently reclassified to profit and loss</i>			
Cash flow hedges, net of tax		1,066	3,342
<b>Other comprehensive income for the year, net of tax</b>		<b>1,066</b>	<b>3,342</b>
<b>Total comprehensive income for the year</b>		<b>27,171</b>	<b>37,587</b>
Basic earnings per share (cents)	5.4	7.33	9.78
Diluted earnings per share (cents)	5.4	7.29	9.76

These statements should be read in conjunction with the notes to these financial statements.

## Balance Sheet

As at 29 April 2018

	Notes	2018 \$'000	Restated 2017 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		9,352	13,406
Trade and other receivables	3.4	85,618	63,258
Inventories	3.1	92,449	84,864
Derivative financial instruments	7.7	2,269	1,635
Biological assets	3.3	35,054	32,872
<b>Total current assets</b>		<b>224,742</b>	<b>196,035</b>
<b>Non-current assets</b>			
Property, plant and equipment	4.1	179,154	163,663
Receivables		—	329
Intangible assets	4.2	347,298	342,988
<b>Total non-current assets</b>		<b>526,452</b>	<b>506,980</b>
<b>Total assets</b>		<b>751,194</b>	<b>703,015</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	3.2	89,330	66,600
Tax payable		8,356	3,113
Derivative financial instruments	7.7	29	1,978
<b>Total current liabilities</b>		<b>97,715</b>	<b>71,691</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	6.1	25,433	29,213
Borrowings	5.1	145,139	120,000
<b>Total non-current liabilities</b>		<b>170,572</b>	<b>149,213</b>
<b>Total liabilities</b>		<b>268,287</b>	<b>220,904</b>
<b>Net assets</b>		<b>482,907</b>	<b>482,111</b>
<b>EQUITY</b>			
Issued capital	5.2	427,121	427,121
Reserves	5.3	2,000	438
Retained earnings		53,786	54,552
<b>Total equity</b>		<b>482,907</b>	<b>482,111</b>

These statements should be read in conjunction with the notes to these financial statements.

## Statement of Changes in Equity

For the year ended 29 April 2018

	Issued capital \$'000 (Note 5.2)	Reserves \$'000 (Note 5.3)	Retained earnings \$'000	Total equity \$'000
Balance at 24 April 2016	284,423	(3,149)	32,586	313,860
Profit for the year	–	–	34,245	34,245
Other comprehensive income for the year, net of tax	–	3,342	–	3,342
Total comprehensive income	–	3,342	34,245	37,587
Movement in fair value of share based payments reserve	–	245	–	245
Shares redeemed during the year	(264,158)	–	–	(264,158)
Issue of shares during the year net of issue costs	406,856	–	–	406,856
Dividends paid	–	–	(12,279)	(12,279)
Supplementary dividends paid	–	–	(431)	(431)
Foreign investor tax credit	–	–	431	431
	142,698	245	(12,279)	130,664
Balance at 30 April 2017	427,121	438	54,552	482,111
Profit for the year	–	–	26,105	26,105
Other comprehensive income for the year, net of tax	–	1,066	–	1,066
Total comprehensive income	–	1,066	26,105	27,171
Movement in fair value of share based payments reserve	–	496	–	496
Dividends paid	–	–	(26,871)	(26,871)
Supplementary dividends paid	–	–	(865)	(865)
Foreign investor tax credit	–	–	865	865
	–	496	(26,871)	(26,375)
Balance at 29 April 2018	427,121	2,000	53,786	482,907



## Statement of Cash Flows

For the year ended 29 April 2018

	Notes	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		594,873	626,245
Net GST received		1,838	2,340
Income tax paid		(8,719)	(11,416)
Payments to suppliers		(410,708)	(423,030)
Payments to employees		(135,821)	(144,417)
Other operating expenses related to listing		–	(4,145)
<b>Net cash inflow from operating activities</b>	3.5	<b>41,463</b>	<b>45,577</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(32,473)	(28,795)
Payments for intangibles		(7,607)	(1,427)
Proceeds from sale of property, plant and equipment and other		2,285	88
<b>Net cash outflow from investing activities</b>		<b>(37,795)</b>	<b>(30,134)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		185,425	–
Issue of ordinary shares		–	418,577
Redemption of redeemable shares		–	(264,158)
Repayment of principal on borrowings		(159,925)	(133,000)
Payment of interest and financing costs		(6,351)	(4,433)
Payment of costs related to listing		–	(10,746)
Payment of dividends		(26,871)	(12,279)
<b>Net cash outflow from financing activities</b>		<b>(7,722)</b>	<b>(6,039)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(4,054)</b>	<b>9,404</b>
Cash and cash equivalents at the beginning of the financial year		13,406	4,002
<b>Cash and cash equivalents at end of year</b>		<b>9,352</b>	<b>13,406</b>

These statements should be read in conjunction with the notes to these financial statements.

## Notes to the financial statements

29 April 2018

### 1 BASIS OF PREPARATION

#### 1.1 General information

Tegel Group Holdings Limited (the Company) and its subsidiaries (together the Group) is a fully integrated poultry producer, involved in the breeding, hatching, processing, marketing and distribution of poultry products.

These financial statements are the consolidated financial statements and incorporate the assets, liabilities and results of Tegel Group Holdings Limited and its subsidiaries Ross Group Enterprises Limited, Ross Group Developments Limited, SH12 Limited, Tegel Foods Limited, and Tegel International Services Limited. These subsidiary companies are all 100% owned by the Company and incorporated in New Zealand.

#### 1.2 Statement of compliance and basis of preparation

The consolidated financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations.

#### Statutory base

Tegel Group Holdings Limited is a limited liability company which is domiciled and incorporated in New Zealand. It is registered under the Companies Act 1993 and listed on the Stock Exchange in New Zealand and Australia, and is a FMC Reporting Entity under the Financial Markets Conduct Act 2013.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Companies Act 1993 and the Financial Markets Conduct Act 2013.

The financial statements have been rounded to the nearest one thousand New Zealand dollars. The Group divides its financial year into weekly periods. The 2018 full year results are for 52 weeks (2017: 53 weeks).

#### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

#### Changes in accounting policies and adoption of new and amended standards

In 2011, on acquisition of the Tegel business, the Group recognised an indefinite life brand with a fair value of \$33.5 million. No deferred tax was recognised in relation to this asset at the time of the acquisition. This was based on the assumption that because an indefinite life brand is not amortised, its carrying amount is not expected to be consumed, rather, its carrying amount is expected to be recovered entirely through sale.

In November 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the determination of the expected manner of recover of intangible assets with indefinite useful life for the purposes of measuring deferred tax, in accordance with IAS 12 Income Taxes. This provided additional guidance on how an entity recovers the carrying value of such assets and the consequences for the measurement and recognition of deferred tax.

As a result of this additional guidance, the Group has recognised a deferred tax liability of \$9.4 million on brands, with a corresponding increase in the carrying amount of the generated goodwill. There has been no impairment of the goodwill or brands since the acquisition. Comparatives for goodwill and deferred tax liability have been restated and both increased by \$9.4 million.

There have been no other changes in accounting policies or new standards adopted that have had a material impact on the financial statements during the year.

### 1.3 Critical accounting judgements, estimates and assumptions

#### Accounting Policy

##### Critical accounting estimates

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following critical accounting estimates and judgements have been made:

(a) Reviewing the carrying value of goodwill, trademarks and customer relationships. Note 4.2 provides information about the impairment testing of goodwill and trademarks.

(b) Biological assets

Judgements have been made in relation to the Group's biological assets as disclosed in Note 3.3.

### 1.4 Significant events during the year

#### Refinance

On 10 October 2017, a new banking facility was negotiated, resulting in all bank borrowing being repaid and a new three year facility being advanced to the Group. For more details see note 5.1 Borrowings.

#### Takeover notice

On 25 April 2018, a takeover notice, under Rule 41 of the Takeovers Code, was received by the directors of the Group from Bounty Holdings New Zealand Limited (Bounty) to acquire all of the issued shares in the Group at a price per ordinary share of NZ\$1.23.

The takeover offer document was distributed by Bounty to all Tegel shareholders on 28 May 2018 and accepted by Claris Investments Pte. Limited (Claris) on 30 May 2018 in respect of their 45% shareholding of the issued ordinary shares. Claris is now subject to the terms of the Lock-up agreement with Bounty.

## Notes to the financial statements (continued)

29 April 2018

### 2 PERFORMANCE

#### 2.1 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's senior management team.

The Group operates in one industry, being the manufacture and sale of poultry products. Management makes resource allocation decisions based on expected cash flows and results of the Group's operations as a whole and the Group therefore has one segment.

A key performance measure reviewed by management is underlying earnings before interest, tax, depreciation, amortisation, fair value adjustments to biological assets and share based payments, and unrealised gains and losses on foreign exchange (underlying EBITDA). This is adjusted for significant one off items.

Revenues of approximately 44% (2017: 42%) are derived from two customers with greater than 10% of revenue.

	2018 \$'000	2017 \$'000
<b>Underlying EBITDA</b>	<b>70,166</b>	75,558
Unrealised gains / (losses) on foreign exchange revaluations	152	(418)
Fair value adjustment to biological assets	249	(32)
Share based payments	(496)	(245)
Settlement of historical legal and other claims	(12)	(654)
Listing costs	–	(147)
Gains / (loss) on the disposal of property, plant and equipment	1,996	(146)
Kaikoura earthquake costs and other distribution costs	(1,381)	(535)
Industry compliance costs <sup>1</sup>	(4,141)	–
Costs related to Cyclone Gita and other one off events	(3,277)	–
Restructuring costs	(1,133)	–
<b>EBITDA</b>	<b>62,123</b>	73,381
Depreciation	(16,693)	(16,273)
Amortisation	(3,297)	(3,212)
Net finance costs	(6,260)	(6,018)
<b>Profit before tax</b>	<b>35,873</b>	47,878
Income tax expense	(9,768)	(13,633)
<b>Profit after tax</b>	<b>26,105</b>	34,245

- 1 Costs have been incurred by the Group while working with all industry companies to establish a catching practice that reduced risk to catching staff. Management have assessed these industry compliance costs to be \$4.1 million.

#### Accounting policy

##### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of Goods and Services Tax, rebates and discounts.

Revenue from the sale of goods including feed and biological assets is recognised in profit and loss when the significant risks and rewards have been transferred to the buyers. No revenue is recognised if there are significant uncertainties regarding recoverability.

The Group sells to many different countries with all sales originating from New Zealand.

	2018 \$'000	2017 \$'000
<b>REVENUE</b>		
Domestic	525,859	511,023
Export	89,576	102,955
<b>Total revenue</b>	<b>615,435</b>	613,978
	2018 \$'000	2017 \$'000
<b>OTHER INCOME</b>		
Gain on disposal of property, plant and equipment	1,996	–
	1,996	–

### 3 WORKING CAPITAL

#### 3.1 Inventories

##### Accounting Policy

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and production overheads necessary to bring the inventories into their present location and condition. Biological assets are transferred to inventory at fair value less estimated costs to sell at the date of harvest. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

	2018 \$'000	2017 \$'000
Raw materials	30,267	29,159
Finished goods	54,801	50,012
Spare parts and consumables	7,381	5,693
	92,449	84,864

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to \$473.4 million (2017: \$464.8 million).

Raw materials of \$5.7 million (2017: \$12.3 million) have been pledged as security for trade payables. The remaining inventory is secured under bank borrowings.

#### 3.2 Trade and other payables

##### Accounting Policy

##### Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid.

Supplier payables relate to balances with third parties for the supply of commodities. In exchange for a fee these payables have payment terms that are more favourable than the Group's standard payment terms. The third parties hold security over the goods until paid.

##### Employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave to be settled within 12 months of the reporting date are recognised in 'employee benefits' in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. The Group's net obligation in respect of long service leave is the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods.

	2018 \$'000	2017 \$'000
Trade payables	54,452	29,970
Supplier payables	12,830	16,755
Accruals and other payables	6,088	5,475
Employee benefits	15,960	14,400
	89,330	66,600

Due to the nature of the trade and other payables their carrying value is assumed to approximate their fair value.

#### 3.3 Biological assets

##### Accounting Policy

Biological assets include live broiler chicken and turkey birds, breeding stock and hatching eggs. These are measured at fair value less estimated point of sales costs at reporting dates. Fair value is determined based on market prices or where market prices are not available, fair value is estimated based on market prices of the output produced, by reference to sector benchmarks. Changes to fair value are recognised in cost of sales in profit and loss. Biological assets are transferred to inventory at fair value less estimated costs to sell at the date of harvest.

Assets in this category are classified as current assets if the expected life of the asset is less than 12 months.



## Notes to the financial statements (continued)

29 April 2018

### 3 WORKING CAPITAL (CONTINUED)

#### 3.3 Biological assets (continued)

	2018 \$'000	2017 \$'000
<b>Opening carrying value at 30 April 2017</b>	<b>32,872</b>	31,517
Gain arising from changes in fair value less estimated point of sale costs	24,013	20,070
Increase due to purchases	262,550	271,590
Decreases attributable to sales	(22,689)	(20,333)
Decreases due to harvest	(261,692)	(269,972)
<b>Closing carrying value at 29 April 2018</b>	<b>35,054</b>	32,872

Biological assets are measured at fair value which is determined by using unobservable inputs and is categorised as level 3 as described in note 7.6.

#### Determining fair value

Management estimations and judgements are required in determining the fair value of biological assets which is assessed with reference to the net realisable value of assets based on estimated pre-tax cashflows as at reporting date and making use of assumptions existing at that date. The determination of fair value is based on management's assessment using available data which includes the following specific inputs:

- price achieved in active markets for feed, eggs and day old chicks;
- age of birds, feed conversion rates and mortality rates;
- eggs produced;
- quantity of birds and eggs on hand.

#### Risks

Feed is a significant component of biological assets and the Group is exposed to financial risks arising from changes in feed commodity prices. These risks are managed through an established process whereby the various conditions which influence commodity prices are monitored on an ongoing basis. The Group uses various methods to manage this risk including the procurement of raw materials on fixed price purchase contracts and the use of foreign exchange contracts to hedge foreign currency exposure.

#### 3.4 Trade and other receivables

##### Accounting policy

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the amount the Group expects to collect. The movement in the provision during the period is recognised in 'Administration expenses' in profit and loss.

	2018 \$'000	2017 \$'000
Trade receivables	83,433	61,287
Provision for doubtful receivables	(1,186)	(976)
Other debtors	2,320	2,101
Prepayments and other	1,051	846
	<b>85,618</b>	63,258

#### (a) Past due more than 3 months

As at 29 April 2018 trade receivables of \$2.2 million (2017: \$2.1 million) were past due but not impaired. These relate to a number of independent customers where there is no recent history of default or for which terms have subsequently been renegotiated and it is expected that these amounts will be received.

Trade receivables of \$1.2 million (2017: \$1.0 million) were individually assessed for impairment and a provision for the full amount has been recognised.

### 3.4 Trade and other receivables (continued)

#### (b) Bad and doubtful trade receivables

The Group has recognised an expense / (addback) of \$0.2 million (2017: (\$0.3 million)) in respect of bad and doubtful trade receivables during the year ended 29 April 2018.

	2018 \$'000	2017 \$'000
<b>Movement in provision</b>		
Debts written off	(101)	(43)
Increase / (decrease) in provision	311	(252)
<b>Net increase / (decrease) in provision for doubtful receivables</b>	<b>210</b>	<b>(295)</b>

#### (c) Fair value

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

### 3.5 Reconciliation of profit after income tax to net cash inflow from operating activities

#### Accounting Policy

Cash and cash equivalents are considered to be cash on hand, bank current accounts, cash on deposit and bank overdrafts. Cash flows are shown exclusive of Goods and Services Tax (GST). Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity and financing costs.

	2018 \$'000	2017 \$'000
Profit for the year	26,105	34,245
<b>Adjusted for</b>		
Depreciation	16,693	16,273
Amortisation	3,297	3,212
Share based payments	496	245
Amortised finance costs	153	–
(Increase) / decrease in fair value of biological assets and inventory	(249)	32
(Gain) / Loss on disposal of property, plant and equipment	(1,996)	146
Movements in working capital due to derivatives	(1,103)	(257)
Movements related to deferred tax	(4,194)	–
Other amounts not involving cash flows	578	107
<b>Impact of changes in working capital items</b>		
(Increase) / decrease in debtors and prepayments	(22,360)	14,805
Increase / (decrease) in creditors and provisions	22,730	(15,377)
Increase in inventories	(7,585)	(2,526)
Decrease in deferred IPO costs	–	12,246
(Decrease) in provisions and other current liabilities	–	(21,754)
Increase in current tax liabilities	5,243	2,077
Increase in biological assets	(2,182)	(1,355)
<b>Less items classified as financing activities:</b>		
Payment of costs related to listing and subsequently netted in equity	–	(975)
Interest paid classified as financing	5,837	4,433
<b>Net cash inflow from operating activities</b>	<b>41,463</b>	<b>45,577</b>

## Notes to the financial statements (continued)

29 April 2018

### 4 LONG TERM ASSETS

#### 4.1 Property, plant and equipment

##### Accounting Policy

All property, plant and equipment are stated at historical cost less depreciation and impairment where applicable. Historical cost includes expenditure that is directly attributable to the acquisition of the items and may include the cost of materials, direct labour, and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation of property, plant and equipment is charged on a straight-line basis so as to write off the cost of the assets over their expected useful life. The following estimated lives have been used:

- Buildings 40 years
- Plant and equipment 3 – 30 years
- Motor vehicles 3 – 6 years

Capital work in progress is not depreciated until commissioned.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The residual lives are reviewed at each year end for appropriateness.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss in Other income or Administration expenses respectively.

	Capital work in progress \$'000	Freehold land \$'000	Buildings \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000
<b>At 24 April 2016</b>						
Cost	5,991	9,035	37,049	158,831	611	211,517
Accumulated depreciation	–	–	(3,949)	(55,835)	(382)	(60,166)
Net book amount	5,991	9,035	33,100	102,996	229	151,351
<b>Year ending 30 April 2017</b>						
Opening net book amount	5,991	9,035	33,100	102,996	229	151,351
Additions	28,796	–	–	–	–	28,796
Transfer of work in progress	(27,155)	53	4,332	22,727	43	–
Disposals	–	–	–	(211)	–	(211)
Depreciation charge	–	–	(1,682)	(14,521)	(70)	(16,273)
Closing net book amount	7,632	9,088	35,750	110,991	202	163,663
<b>At 30 April 2017</b>						
Cost	7,632	9,088	41,381	180,829	654	239,584
Accumulated depreciation	–	–	(5,631)	(69,838)	(452)	(75,921)
Net book amount	7,632	9,088	35,750	110,991	202	163,663
<b>Year ending 29 April 2018</b>						
Opening net book amount	7,632	9,088	35,750	110,991	202	163,663
Additions	32,473	–	–	–	–	32,473
Transfer of work in progress	(19,069)	1,070	3,764	14,235	–	–
Disposals	–	–	(196)	(93)	–	(289)
Depreciation charge	–	–	(2,183)	(14,443)	(67)	(16,693)
Closing net book amount	21,036	10,158	37,135	110,690	135	179,154
<b>At 29 April 2018</b>						
Cost	21,036	10,158	44,862	194,864	625	271,545
Accumulated depreciation	–	–	(7,727)	(84,174)	(490)	(92,391)
Net book amount	21,036	10,158	37,135	110,690	135	179,154

## 4.2 Intangible assets

### Accounting Policy

#### (i) Goodwill

Goodwill represents the excess of the consideration transferred and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit and loss.

Goodwill is not amortised but is tested for impairment annually or immediately if events or changes in circumstances indicate that there might be an impairment and is carried at cost less accumulated impairment losses.

#### (ii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The Customer relationships have a finite useful life, assessed as 25 years, and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method over the expected life of the customer relationship and classified within Administration expenses.

#### (iii) Brands

Separately acquired trademarks and licences are shown at historical cost and represent the value of brands acquired. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks are not amortised. Instead trademarks are tested for impairment annually, or immediately if events or changes in circumstances indicate that there might be impairment, and are carried at cost less accumulated impairment losses. Trademarks are considered to have an indefinite useful life due to the unique nature of the brand in the New Zealand market.

#### (iv) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

#### (v) Other intangibles

Other intangibles are payments made in the course of business that are capitalised over the term of the agreement to which they relate. This ranges from three to seven years. These costs are amortised over this same term.

## Notes to the financial statements (continued)

29 April 2018

### 4 LONG TERM ASSETS (CONTINUED)

#### 4.2 Intangible assets (continued)

	Goodwill	Customer Relationships \$'000	Brands \$'000	Computer software \$'000	Other intangible assets \$'000	Total \$'000
<b>At 24 April 2016 (restated)</b>						
Cost	263,958	56,900	33,500	9,017	983	364,358
Accumulated amortisation	–	(11,380)	–	(7,425)	(780)	(19,585)
Net book amount	263,958	45,520	33,500	1,592	203	344,773
<b>Year ending 30 April 2017 (restated)</b>						
Opening net book amount	263,958	45,520	33,500	1,592	203	344,773
Additions	–	–	–	1,127	300	1,427
Amortisation charge	–	(2,276)	–	(512)	(424)	(3,212)
Closing net book amount	263,958	43,244	33,500	2,207	79	342,988
<b>At 30 April 2017 (restated)</b>						
Cost	263,958	56,900	33,500	10,143	1,283	365,784
Accumulated amortisation	–	(13,656)	–	(7,936)	(1,204)	(22,796)
Net book amount	263,958	43,244	33,500	2,207	79	342,988
<b>Year ending 29 April 2018</b>						
Opening net book amount	263,958	43,244	33,500	2,207	79	342,988
Additions	–	–	–	7,231	376	7,607
Amortisation charge	–	(2,276)	–	(693)	(328)	(3,297)
Closing net book amount	263,958	40,968	33,500	8,745	127	347,298
<b>At 29 April 2018</b>						
Cost	263,958	56,900	33,500	17,219	375	371,952
Accumulated amortisation	–	(15,932)	–	(8,474)	(248)	(24,654)
Net book amount	263,958	40,968	33,500	8,745	127	347,298

#### (a) Software additions

Software additions of \$7.2 million include additions to capital work in progress of \$6.4 million predominately due to an Enterprise Resource Planning project.

#### (b) Impairment tests for goodwill and trademarks

Management has undertaken an impairment review and has concluded that the goodwill and brands are not impaired based on the current and future expected trading performance of the Group.

The recoverable amounts of goodwill and brands have been determined based on value-in-use calculations. These calculations use pre-tax illustrative cash flows covering a five year period. Cash flows beyond the five year period are extrapolated using estimated growth rates of 3% (2017: 3%) which are consistent with the long term average growth rate observed by the Group.

The key assumptions used for the value-in-use calculations are as follows:

	2018	2017	2016
5 year EBITDA growth rate	6%	4%	6%
Discount rate	8.8%	8.8%	9.3%
Terminal growth rate	3.0%	3.0%	3.0%

The valuation model used is most sensitive to changes in discount rate and long term growth rates.

Detailed below is the amount by which these assumptions would have to change to result in the recoverable amount being equal to the carrying amount.

Discount rate	Increase of 81 basis points
Terminal growth rate	Decrease of 94 basis points

A change in discount rate to 9.1% would result in a \$32.2 million reduction in headroom and a change in terminal growth rate to 2.5% would result in a \$43.9 million reduction in headroom. If both assumptions were changed it would not result in the carrying amount exceeding the recoverable amount.



However, a significant change in assumptions such as a discount rate of 9.1% and a terminal growth rate of 2% would result in an impairment of \$13.7 million.

#### Value in respect of current Takeover offer by Bounty Holdings New Zealand Limited (Bounty)

In assessing the recoverable value of goodwill, the Directors have considered the terms of the current takeover offer by Bounty. The effective offer price of \$1.271 is below the Group's Net Assets on a per share basis of \$1.357. Adjusting goodwill to an effective net asset value per share of \$1.271 (consistent with the effective offer price), would result in an impairment of \$30.6 million.

No adjustment has been made in these accounts for any potential impairment after giving consideration to:

1. The value-in-use model outlined above showing no impairment being required;
2. The independent adviser report providing a valuation range of \$1.15 - \$1.39 per share, the range including the Net Asset per share value of \$1.357;
3. The Directors have formed an assessment of the current offer and provided a recommendation to accept the offer in the Target Company Statement dated 11 June 2018, noting in particular that Bounty has already achieved a majority shareholder position and any remaining shareholders would hold a minority. However as noted in that recommendation, shareholders with a longer term risk profile should consider holding onto their shares. This gives consideration to the long term value shown by the company's value-in-use model and implied by the top end of the independent valuers report.

### 4.3 Commitments

#### Accounting policy

##### Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment which are classified as operating leases as the lessor has retained substantially all the risks and rewards of ownership.

#### (a) Operating lease commitments

Operating leases held over properties give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor.

	2018 \$'000	2017 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	28,594	23,876
Later than one year but not later than five years	89,223	75,268
Later than five years	185,845	104,884
	303,662	204,028

#### (b) Other commitments for expenditure

	2018 \$'000	2017 \$'000
Raw material purchasing commitments are as follows:		
Within one year	55,205	76,716
	55,205	76,716

The Group has contracts with growers which require certain minimum standards to be met. The next renewal date for approximately 44% of these contracts is 30 April 2019 with the renewal date for the remaining contracts between 4 and 25 years. The amount committed to be paid within the next year is \$25.0 million (2017: \$18.6 million).

#### (c) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2018 \$'000	2017 \$'000
Property, plant and equipment and intangibles	7,228	8,985
	7,228	8,985

#### (d) Letter of credit

	2018 \$'000	2017 \$'000
Letters of credit issued as at reporting date for purchase of capital items due for delivery after balance date	—	2,090

## Notes to the financial statements (continued)

29 April 2018

### 5 BORROWINGS AND EQUITY

#### 5.1 Borrowings

##### Accounting policy

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit and loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date and there is no intention to repay within 12 months.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

	2018 \$'000	2017 \$'000
<b>Secured</b>		
<b>Non current</b>		
Bank borrowings at amortised cost	145,139	120,000
<b>Total interest bearing liabilities</b>	<b>145,139</b>	<b>120,000</b>

The banking arrangements include a working capital facility which is included within bank borrowings above.

	2018 \$'000	2017 \$'000
Bank loan facilities		
Working capital facilities	50,000	40,000
<b>Unused at balance date</b>	<b>24,500</b>	<b>40,000</b>

On 10 October 2017, a new banking facility was negotiated, resulting in all bank borrowings being repaid. A new three year facility was advanced to the Group. The new arrangements are a facility of \$120.0 million and a working capital facility of \$50.0 million with both expiring in October 2020.

Interest is calculated at the BKBM floating base rate plus a margin.

The borrowings are subject to borrowing covenant arrangements. The Group has complied with all covenants during the year. Bank borrowings are secured over the assets of the Group. The carrying value of borrowings is assumed to approximate the fair value.

The loans of the Group incurred interest at rates from 3.1% to 3.7% (30 April 2017: 3.2% to 4.9%).

#### 5.2 Share capital

Share Capital	Ordinary shares	
	Number on issue '000	Value \$'000
<b>At 30 April 2017</b>	<b>355,906</b>	<b>427,121</b>
<b>At 29 April 2018</b>	<b>355,906</b>	<b>427,121</b>

##### Ordinary shares

As at 29 April 2018, ordinary shares comprised 355,906,183 (2017: 355,906,183) authorised issued and fully paid shares in Tegel Group Holdings Limited. Each share carries one voting right.

### 5.3 Reserves

	2018 \$'000	2017 \$'000
Reserves		
Hedge reserve	1,259	193
Share based payments reserve	741	245
	2,000	438

#### Hedge reserve

The hedging reserve is used to record gains or losses on cash flow hedge instruments, as described in Note 7.7. Hedged gains or losses are recognised in the profit and loss in the period in which the income or expense associated with the underlying transaction occurs.

The total amount of cash flow hedges reclassified from equity and included in profit or (loss) before tax for the period is (\$2.4 million) (2017: (\$5.7 million)).

#### Share based payments reserve

The share based payments reserve is used to recognise the fair value of performance rights granted but not yet vested under the long term incentive plan. Amounts are transferred to share capital when the vested performance share rights are exercised by the employee. Refer to note 6.4.

### 5.4 Earnings per share

Earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares on issue during the year. Diluted earnings per share assumes conversion of all dilutive potential ordinary shares in determining the weighted average number of ordinary shares on issue.

	2018 \$'000	2017 \$'000
Profit attributable to shareholders	26,105	34,245
Weighted average number of ordinary shares for basic earnings per share	355,906	350,083
Effect of dilutive ordinary shares:		
- Performance rights	1,967	879
Weighted average number of ordinary shares for diluted earnings per share	357,873	350,962
Basic earnings per share (cents)	7.33	9.78
Diluted earnings per share (cents)	7.29	9.76

### 5.5 Dividends paid

Dividends are recognised as a liability in the Group's financial statements in the period in which they are declared by the Board.

	2018		2017	
	\$'000	Cents per share	\$'000	Cents per share
<b>Dividends paid during the year</b>				
2017 Interim dividend	–	–	12,279	3.45
2017 Final dividend	14,592	4.10	–	–
2018 Interim dividend	12,279	3.45	–	–
	26,871	7.55	12,279	3.45
<b>Dividends declared after balance date</b>				
2017 Final dividend	–	–	14,592	4.10
2018 Final dividend	14,592	4.1	–	–
	14,592	4.1	14,592	4.10

The 2017 and 2018 interim and final dividends paid and declared, are fully imputed.

## Notes to the financial statements (continued)

29 April 2018

### 6 OTHER

#### 6.1 Taxation

##### Accounting Policy

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

	2018 \$'000	2017 \$'000
<b>(a) Income tax expense</b>		
<b>Current tax</b>		
Current tax on profits for the year	14,138	14,058
Over provided in prior years	(176)	(567)
<b>Total current tax</b>	<b>13,962</b>	<b>13,491</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(4,481)	(538)
Under provided in prior years	287	680
<b>Total deferred tax (benefit) / expense through profit and loss</b>	<b>(4,194)</b>	<b>142</b>
<b>Income tax expense</b>	<b>9,768</b>	<b>13,633</b>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit from continuing operations before income tax expense	35,873	47,878
Tax calculated at domestic tax rate applicable to profits at 28%	10,044	13,406
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-taxable (gain) / loss on the sale of property, plant and equipment	(394)	40
Non deductible expenses	75	105
Revaluation of fair value of biological assets	(70)	9
Sundry items including under provided in prior years	113	73
<b>Income tax expense</b>	<b>9,768</b>	<b>13,633</b>

**(c) Deferred tax liabilities**

	2018 \$'000	Restated 2017 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Provisions for doubtful debts, inventory and employee benefits	(4,217)	(678)
Property, plant and equipment	8,309	8,327
Cash flow hedge reserve	490	76
Customer relationships	11,471	12,108
Brands	9,380	9,380
<b>Net deferred tax liabilities</b>	<b>25,433</b>	<b>29,213</b>
<b>Movements in deferred tax:</b>		
Opening balance	29,213	27,773
<b>(Credited) / charged to the income statement</b>		
Provisions for doubtful debts, inventory and employee benefits	(3,539)	497
Property, plant and equipment	(18)	281
Customer relationships	(637)	(638)
	<b>(4,194)</b>	<b>140</b>
<b>Charged directly to equity</b>		
Cash flow hedge reserve	414	1,300
<b>Closing balance</b>	<b>25,433</b>	<b>29,213</b>

**(d) Imputation credit account**

The amount of imputation credits at balance date available for future distribution is set out below:

	2018 \$'000	2017 \$'000
Closing balance	14,348	10,616

Certain Group subsidiary companies and the parent form a consolidated group for income tax purposes. The Group imputation credit account reported above is for this tax group and is available to shareholders either directly or indirectly through their shareholding in the parent company.

Imputation credits remaining after distribution of the final 2018 dividend are estimated to be c\$9.2 million. To the extent not otherwise utilised, these will no longer be available to shareholders, if all conditions of the Bounty takeover offer are met resulting in a change of shareholding exceeding 66%. (Refer note 1.4).

**6.2 Expenses**

	2018 \$'000	2017 \$'000
<b>Profit before income tax includes the following specific expenses:</b>		
Operating lease payments	29,461	28,331
<i>Employee benefits</i>		
Wages, salaries and other employment costs	140,177	135,914
Directors' fees	343	382
Contributions to defined contribution superannuation plans	4,140	3,864
Share based payments expense	496	245
	<b>145,156</b>	<b>140,405</b>



## Notes to the financial statements (continued)

29 April 2018

### 6 OTHER (CONTINUED)

#### 6.3 Fees paid to auditors

	2018 \$'000	2017 \$'000
During the year the following fees were paid or payable for services provided by the auditor of the Group.		
<b>Audit of financial statements</b>		
Statutory audit and review of financial statement	263	253
<b>Other services</b>		
Tax compliance and consulting services	97	167
Treasury advisory services	24	24
Remuneration benchmarking services	23	3
Agreed upon procedures at the Annual General Meeting	7	–
<b>Total other services</b>	151	194
<b>Total remuneration for services</b>	414	447

#### 6.4 Share based payments

The Group established an equity settled share based incentive plan for senior managers and eligible employees (LTI Plan) on 20 April 2016. The plan is designed to attract and retain senior managers within the business and to align the interests of management with shareholders' interests.

Under the LTI Plan, participants are granted performance rights. Each performance right gives the participant the right to acquire one ordinary share, subject to meeting vesting conditions set by the Board. The Board has absolute discretion to invite employees or contractors of the Group to participate in the LTI Plan and to set the terms and conditions of the performance rights to be granted, consideration for the grant (if any) and the vesting conditions attached to those performance rights.

The fair value of performance rights granted is recognised as an employee expense in the income statement with a corresponding increase in the share based payments reserve. The fair value is measured at grant date and spread over the vesting period. The fair value of the performance rights granted is independently assessed, taking into account the terms and conditions upon which the performance rights were granted. When performance rights are exercised the amount in the share based payments reserve relating to those performance rights is transferred to share capital. When any vested performance rights lapse, upon unexercised performance rights reaching maturity, the amount in the share based payments reserve relating to those performance rights is transferred to share capital, or to retained earnings if the performance rights lapse due to market conditions not being met.

During the year, the Board approved a grant of performance rights. The number of performance rights was determined by dividing the grant value by the fair value of the performance rights. Participants did not pay any consideration for the performance rights and once they vest, participants will not pay any issue price when they elect to acquire ordinary shares in exchange for their vested performance rights.

Vesting of performance rights on issue is conditional on Tegel's total shareholder return over the vesting period being positive, ranking above the 50th percentile of total shareholders returns for companies in the S&P/NZX50 and the participant remaining employed by the Group at the time of vesting at the discretion of the Board. The vesting period ends after the announcement of the Group's financial results for the 2019 financial year.

The number of performance rights that will vest will be calculated on a straight line basis where the Group's total shareholder return ranks between the 50th and 75th percentile, and all of the performance rights will vest where the Group's total shareholder return ranks 75th percentile or above. Once vested, the performance rights remain exercisable for a period of six months.

	Number of performance rights	
	2018 000	2017 000
Opening balance	894	–
Granted during the year	1,321	894
Cancelled during the year	(173)	–
<b>Closing balance</b>	<b>2,042</b>	894
Share price at grant date	\$1.26	\$1.63

The fair value of the performance rights granted during the year was \$1.3 million (2017: \$0.8 million) and was determined by taking into account a range of factors including share price at grant date and expected price volatility.

### Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the year as part of employee benefit expense were as follows:

	2018 \$'000	2017 \$'000
Expenses for equity settled share based payment transactions	496	245

### 6.5 Related party transactions

#### (a) Parent entities

The ultimate Parent entity within the Group is Tegel Group Holdings Limited (incorporated in New Zealand) of which 45.0% (2017: 45.0%) of the ordinary shares are owned by Claris Investments Pte. Limited as at balance date.

#### (b) Key management personnel compensation

The key management are the management who have the greatest authority for the strategic direction and operational management of the Group. Directors fees and payments to the senior management team are included below:

	2018 \$'000	2017 \$'000
Short term employee benefits	3,381	3,346
Payments to directors	343	382
Contributions to defined contribution superannuation plans	95	127
Share based payments expense	496	245
Termination benefits	314	—
	4,629	4,100

#### (c) Transactions with related parties

- (i) Affinity Equity Partners advises Claris Investments Pte. Limited and as such is considered a related party. During the year various expenses totalling \$0.02 million (2017: \$0.06 million) including travel costs were incurred by Affinity Equity Partners on behalf of Tegel Group Holdings Limited. These have been on charged to the Group.
- (ii) Directors of the group control 0.3% (2017: 0.3%) of the voting shares of the company at balance date.

### 6.6 Contingencies

The Group is involved in discussions with insurers regarding costs incurred as a result of Cyclone Gita. The quantification of this claim is ongoing.

As at 29 April 2018 the Group had no other contingent liabilities or assets.

### 6.7 Significant events after balance date

On 10 June 2018 the Board approved the payment of a fully imputed 2018 final dividend of \$14,592,154 (4.1 cents per share) to be paid on 13 July 2018. In addition, a supplementary dividend totalling approximately \$0.2 million (0.72 cents per share) was also approved for eligible non-resident shareholders.

## Notes to the financial statements (continued)

29 April 2018

### 6 OTHER (CONTINUED)

#### 6.8 Other accounting policies

##### (a) Principles of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### (b) Foreign currency translation

###### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in New Zealand dollars, which is the Group's functional and presentation currency.

###### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss.

##### (c) Goods and Services Tax (GST)

The income statement and the statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

##### (d) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

##### (e) Sale and leaseback

When a sale and leaseback results in a finance lease, any gain on the sale is deferred and recognised as income over the lease term. Any loss on the sale is immediately recognised as an impairment loss when the sale occurs. If the leaseback is classified as an operating lease, then any gain is recognised immediately if the sale and leaseback terms are demonstrably at fair value.

##### (f) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 29 April 2018 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

##### NZ IFRS 16: Leases

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers'.

The Group intends to adopt NZ IFRS 16 on its effective date and is currently assessing its full impact.

##### NZ IFRS 15: Revenue from contracts with customers

NZ IFRS 15, 'Revenue from contracts with customers' establishes the framework for revenue recognition. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

The new standard is based on the principle that revenue is recognised when control of a good or services transfers to a customer. The notion of control replaces the existing notion of risks and rewards.

The group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact. This standard is not expected to significantly impact the Group.

##### NZ IFRS 9: Financial instruments

NZ IFRS 9, 'Financial instruments' replaces NZ IAS 39 'Financial Instruments: Recognition and measurement'. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and introduced a new impairment model.

The group intends to adopt NZ IFRS 9 on its effective date and is currently assessing its full impact. The standard is not expected to significantly impact the Group.

## 7 FINANCIAL RISK MANAGEMENT

### 7.1 Financial instruments by category

#### Accounting Policy

##### Offsetting financial instruments

Financial instruments and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously.

The Group's activities expose it to a variety of material financial risks including currency, interest rate, credit, and liquidity risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure and mitigate different types of risk to which it is exposed. Risk management is carried out under policies approved by the Board of Directors and executive management. The financial instruments are classified in the following way:

Financial instruments	Classification	Explanation
Derivatives	Fair value through profit and loss	These instruments are used to hedge currency movements and changes to interest rates.
Cash and cash equivalents	Loans and receivables and liabilities held at amortised cost. The carrying amount is considered a reasonable approximation of fair value due to their nature and the impact of discounting not being significant.	These relate to the normal operating needs of the business and the day-to-day operations.
Trade and other receivables		
Trade and other payables		
Borrowings		

### 7.2 Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments, as well as credit exposures to receivables from customers. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are acceptable.

If wholesale customers are independently rated, there ratings are used. Otherwise, if there is no independent rating, credit risk of customers is managed by credit checking procedures and the application of and adherence to credit limits. The Group uses several tools to mitigate upfront risk including the use of independent credit ratings, credit references, past experience, financial reviews and obtaining security assets.

The maximum credit risk on cash and cash equivalents, trade and other receivables and derivative financial instruments is best represented by their carrying amounts.

### 7.3 Market risk

#### (i) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group manages its cash flow interest rate risk within the parameters of its banking facility agreements, including the use of Board approved instruments such as interest rate swaps.

#### (ii) Foreign exchange risk

Foreign exchange risk arises when future operational transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

Forward contracts are the key instrument used to manage foreign exchange risk although other derivatives approved by the Board may be used from time to time.

The Group's material exposure during the reporting period was to USD and AUD denominated grain and other animal feed imports, and AUD denominated export sales.

#### (iii) Summarised sensitivity analysis

As cash balances are not subject to foreign exchange risk, these have been excluded from this analysis. Interest rate risk and foreign exchange risk assumptions have been made on estimated changes in the market.

#### Interest rate risk

At 29 April 2018 if market interest rates had been 1% higher/lower with all other variables held constant, post tax profit for the year would have been \$0.9 million (2017: \$0.9 million) lower/higher mainly as a result of higher/lower interest expense on floating borrowings.

#### Foreign exchange risk

At 29 April 2018 if foreign exchange rates had been 10% higher with all other variables held constant, equity would have been \$1.3 million (2017: \$2.0 million) lower as a result of a change in fair value of derivatives designated as cash flow hedges.

At 29 April 2018 if foreign exchange rates had been 10% lower with all other variables held constant, equity would have been \$1.6 million (2017: \$2.5 million) higher as a result of an increase in fair value of derivatives designated as cash flow hedges.

## Notes to the financial statements (continued)

29 April 2018

### 7. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 7.4 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to pay debts when they fall due.

The Group was in compliance with all of its banking facility agreements as at 29 April 2018.

#### Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are calculated using estimated cash outflows. Interest rate swaps cash outflows have been calculated using the forward interest rates applicable at the reporting date.

	Less than 1 year \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying amount liabilities \$'000
<b>29 April 2018</b>						
Trade payables	89,330	–	–	–	89,330	89,330
Interest Bearing Liabilities	5,283	5,283	147,859	–	158,425	145,139
Forward foreign exchange contracts inflow	(7,445)	–	–	–	(7,445)	–
Forward foreign exchange contracts outflow	7,460	–	–	–	7,460	–
Net Forward foreign exchange contracts	15	–	–	–	15	29
<b>Total</b>	<b>94,628</b>	<b>5,283</b>	<b>147,859</b>	<b>–</b>	<b>247,770</b>	<b>234,498</b>

#### 30 April 2017

Trade payables	66,600	–	–	–	66,600	66,600
Interest Bearing Liabilities	4,128	2,126	120,000	–	126,254	120,000
Forward foreign exchange contracts inflow	(91,894)	–	–	–	(91,894)	–
Forward foreign exchange contracts outflow	93,882	–	–	–	93,882	–
Net Forward foreign exchange contracts	1,988	–	–	–	1,988	1,978
<b>Total</b>	<b>72,716</b>	<b>2,126</b>	<b>120,000</b>	<b>–</b>	<b>194,842</b>	<b>188,578</b>

#### 7.5 Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern and to maintain an optimal capital structure, so that they can continue to provide returns for shareholders and benefits for other stakeholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, sell assets or apply cash reserves to reduce debt.

The Group monitors capital, being the total equity of the group in conjunction with the financial undertakings pursuant to its debt financing agreements. These financial undertakings include an Interest Cover Ratio, Senior Leverage Ratio and Debt Service Cover Ratio. The Group ensures that it operates within the parameters of these financial undertakings at all times.

## 7.6 Fair value estimation

The fair value of financial assets, financial liabilities and biological assets must be estimated for recognition and measurement and for disclosure purposes.

The following table presents the Group's assets and liabilities that are measured at fair value by level of fair value measurement hierarchy.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Consolidated</b>				
<b>At 29 April 2018</b>				
<b>ASSETS</b>				
Biological assets			35,054	35,054
Derivatives used for hedging	–	2,269	–	2,269
<b>Total assets</b>	<b>–</b>	<b>2,269</b>	<b>35,054</b>	<b>37,323</b>
<b>LIABILITIES</b>				
Derivatives used for hedging	–	29	–	29
<b>Total Liabilities</b>	<b>–</b>	<b>29</b>	<b>–</b>	<b>29</b>
<b>At 30 April 2017</b>				
<b>ASSETS</b>				
Biological assets			32,872	32,872
Derivatives used for hedging	–	1,635	–	1,635
<b>Total assets</b>	<b>–</b>	<b>1,635</b>	<b>32,872</b>	<b>34,507</b>
<b>LIABILITIES</b>				
Derivatives used for hedging	–	1,978	–	1,978
<b>Total Liabilities</b>	<b>–</b>	<b>1,978</b>	<b>–</b>	<b>1,978</b>

Financial instruments and biological assets are categorised based on the following fair value measurement hierarchy:

### Level 1

Level 1 includes instruments where fair value measurement is based on quoted prices (unadjusted) in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The Group has no financial instruments measured at fair value in level 1.

### Level 2

Level 2 includes instruments where fair value measurement is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is derived from prices).

Financial instruments measured at fair value included in level 2 comprise derivatives used for hedging. The fair value of derivatives that are not traded in an active market is determined by valuation techniques. All significant inputs used to fair value derivatives used for trading are observable and therefore these instruments are included at level 2.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows using market interest rates.

The fair value of forward exchange contracts is calculated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract.

### Level 3

Level 3 includes instruments where fair value measurement is based on unobservable inputs.

The Group only has biological assets measured at fair value in level 3.



## Notes to the financial statements (continued)

29 April 2018

### 7 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 7.7 Derivatives

##### Accounting Policy

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

##### (i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

##### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit and loss.

Amounts accumulated in equity are recycled to profit and loss in the periods when the hedged item will affect profit and loss (for instance when the forecast purchase or sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit and loss.

##### (iii) Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit and loss.

	2018 \$'000	2017 \$'000
<b>Current assets</b>		
Forward foreign exchange contracts - cash flow hedges	2,269	1,635
<b>Total derivative financial instrument assets</b>	<b>2,269</b>	<b>1,635</b>
<b>Current liabilities</b>		
Forward foreign exchange contracts - cash flow hedges	29	1,978
<b>Total derivative financial instrument liabilities</b>	<b>29</b>	<b>1,978</b>
<b>Net derivative financial instrument assets/(liabilities)</b>	<b>2,240</b>	<b>(343)</b>

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies.

##### (i) Forward exchange contracts - cash flow hedges

The Group operations are primarily domestic but also involve international purchases and exports. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase United States dollars, Australian dollars and Euros and to sell Australian dollars.

These contracts are hedging highly probable forecasted purchases and sales for future financial years. The contracts are timed to mature when payments for major purchases including grain shipments are scheduled to be made and when sales receipts are expected to be received.

During the period ended 29 April 2018, all hedges were fully effective.

# APPENDIX 3

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## Independent Adviser's Report

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# Tegel Group Holdings Limited

Independent Adviser's Report in relation to a full takeover offer for 100% of the shares in Tegel Group Holdings Limited

June 2018

KordaMentha confirms that it:

- (a) has no conflict of interest that could affect its ability to provide an unbiased report; and
- (b) has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

KordaMentha has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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# 1 Terms of the Proposed Transaction

## 1.1 Introduction

Tegel Group Holdings Limited (**Tegel** or **the Company**) is a New Zealand incorporated company listed on the NZX Main Board and the ASX. It is New Zealand's leading poultry producer, processing approximately half of New Zealand's poultry, and also manufactures and markets a range of other processed meat products. Tegel has vertically integrated operations in Auckland, Christchurch and New Plymouth. It produces a range of products across its core business (e.g. fresh and frozen whole chickens, fillets and portions), as well as value-added convenience products (e.g. fresh value-added, cooked and smoked small-goods and frozen processed products), which are sold through Retail, Foodservice and Quick Service Restaurant (**QSR**) channels domestically and in selected channels overseas.

Bounty Holdings New Zealand Limited (**Bounty**) is a group company of Bounty Fresh Group. Bounty Fresh Group is a privately-owned company that is one of the two largest fully integrated poultry businesses, and a food retailing company, in the Philippines, with revenue of over NZ\$750 million in 2017.

On 26 April 2018, Bounty announced its intention to make a full takeover offer (**the Offer**) for 100% of the fully paid ordinary shares in Tegel (**Shares**) and all the performance rights granted under a share based incentive plan to Tegel management (**Performance Rights**). The Offer prices are:

- \$1.23 cash per Share. In addition, the offer terms permit the payment of a dividend of up to 4.1 cents per Share prior to the closing of the Offer, without adjustment to the Offer price. This results in an effective price, assuming such a dividend is paid, of \$1.27 per Share (**the Effective Offer Price**).
- 4.3 cents cash per FY17 Performance Right and 26 cents cash per FY18 Performance Right.

The Independent Directors of Tegel have appointed KordaMentha to prepare an independent adviser's report in accordance with Rule 21 of the Takeovers Code (**the Report**). Our appointment has subsequently been approved by the Takeovers Panel.

The Report has been prepared to consider the merits of the Offer.

Accepting or rejecting the Offer is a matter for individual shareholders based on their own views as to value, future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser.

## 1.2 The Offer

### 1.2.1 Lock-Up Agreement and Share purchases

Bounty acquired 13.49% of Tegel's Shares on market, between when it announced its intention to make an Offer and subsequently making the Offer on 28 May 2018.

Claris Investments Pte. Ltd (**Claris**) holds 45% of Tegel's Shares. Claris has entered into a lock-up agreement with Bounty (**the Lock-Up Agreement**), whereby it has agreed to accept the Offer in respect of its entire holding, subject to certain conditions.

### 1.2.2 Terms and conditions

The Offer is conditional on:

- Bounty receiving sufficient acceptances to take its stake in Tegel to more than 50% of the Shares. This condition cannot be waived by Bounty. However, given the existing shareholding of Bounty and the Lock-Up Agreement, this condition will be satisfied.
- Bounty obtaining regulatory consents required under the Overseas Investment Act 2005.
- There being no outbreak of avian flu in New Zealand.



- Tegel not making any announcement or issuing any earnings guidance or warning to the effect that earnings before interest tax depreciation and amortisation (**EBITDA**) or Underlying EBITDA<sup>1</sup> of the Group for the 26 week period ending on or about 28 October 2018 will or may reasonably be less, by 10% or more, than EBITDA or Underlying EBITDA of the Group for the corresponding 26 week period ended 29 October 2017.

The Offer is subject to a range of other conditions that are relatively standard in takeover offers. These conditions preclude Tegel from paying a dividend or other distribution during the Offer period (above the permitted 4.1 cents per Share), or making any significant purchases or disposals, other than in the ordinary course of business. These other conditions are for the benefit of Bounty and may be waived at its discretion.

### 1.3 Other

The sources of information, to which we have had access and upon which we have relied, are set out in Appendix 1 of the Report.

In response to Bounty's Offer, and in parallel to accelerating the review and reporting of its FY18 results, management has recently prepared and a sub-committee of Independent Directors has reviewed an FY19 earnings range, specifically for the purpose of illustrating potential FY19 EBITDA outcomes (the **FY19 Illustrative EBITDA Range**) in order to facilitate the preparation of this report and the broader Target Company Statement. It should be noted that the FY19 Illustrative EBITDA Range was prepared as at 18 May 2018. At this early stage of the financial year there are many uncertainties which could materially impact the FY19 results for Tegel. For the avoidance of doubt the FY19 Illustrative EBITDA Range does not constitute a forecast.

The Report should be read in conjunction with the statements and declarations set out in Appendix 2 regarding our independence, qualifications, general disclaimer and indemnity and the restrictions upon the use of the Report.

References to '\$', dollars or cents are to New Zealand dollars, unless specified otherwise. References to financial years or 'FY' mean Tegel's financial year end April, unless specified otherwise.

Please note tables may not add due to rounding.

<sup>1</sup> "Underlying EBITDA" means underlying EBITDA calculated in the same manner as set out in Tegel's 2017 Annual Report which excludes the effects of certain IFRS fair value adjustments and items that are of a non-recurring nature.

## 2 Merits of the Proposed Transaction

The Takeovers Code requires the independent adviser to form an opinion as to the merits of the Offer and in doing so to take into consideration issues wider than just valuation.

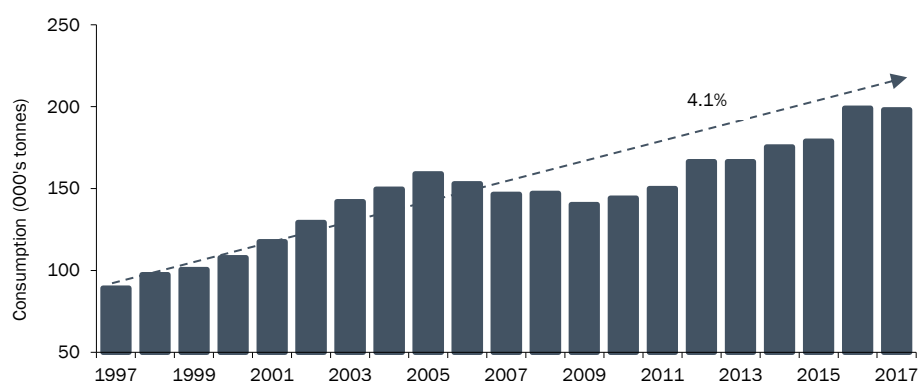
The term 'merits' has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term 'merit', it suggests that merits include both positives and negatives in respect of the Offer.

### 2.1 Tegel

*Tegel benefits from growing demand for poultry products in New Zealand and a leading market share*

New Zealand's poultry consumption growth (4.1% per annum) has outpaced global poultry consumption growth (3.5% per annum) between 1997 and 2017, as shown below. This is despite a temporary decrease in poultry consumption between 2006 and 2009, when a strain of avian flu was transmitted to humans in Asia.

**Figure 2.1: New Zealand Poultry Consumption**



Source: OECD FAO Data

Poultry consumption growth has been driven by a combination of population growth, income growth, increased demand for protein, the lower price of poultry relative to other protein sources and the view that poultry is leaner and healthier than other meats.

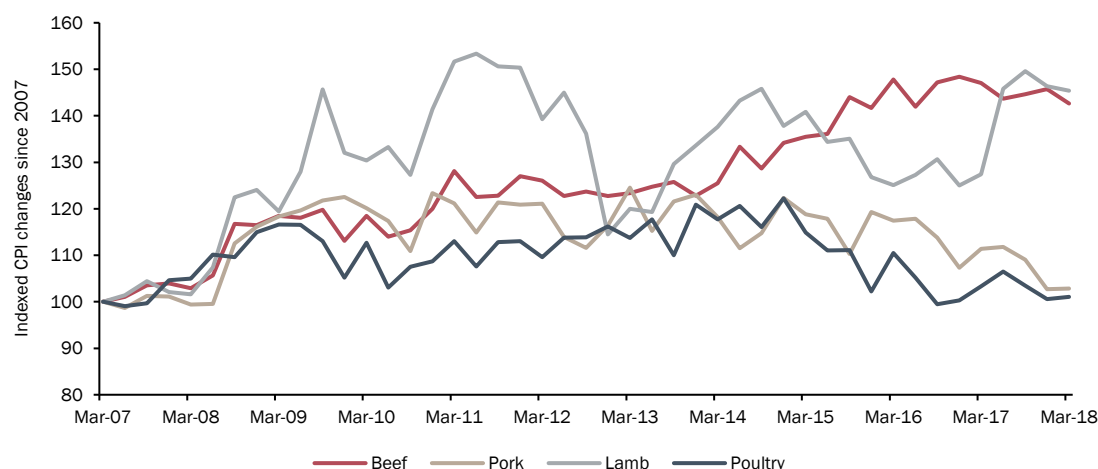
Tegel's share of production of poultry products in New Zealand is estimated to be approximately 50%, with the next largest producer and key competitor being Inghams NZ, followed by Brinks and then Turks.

*However, the New Zealand poultry market is highly competitive and prices have recently declined*

The New Zealand poultry market has a relatively stable structure, with two large fully integrated players and two smaller players, but remains highly competitive. Poultry processing is relatively capital-intensive, with the two largest players having additional processing capacity for future growth (in respect of which Tegel currently has around 30% additional capacity).

Poultry price inflation in New Zealand has remained below the price inflation for lamb and beef prices over the 2007 to 2018 period as shown in Figure 2.2.

Figure 2.2: Meat-protein CPI Inflation (indexed to 100 in 2007)



Source: Statistics New Zealand

Reasons for the poultry price decrease between February 2015 and May 2018 include:

- Additional production capacity of Tegel and Inghams NZ, which has been built based on forecast volume demand.
- The competitive environment among poultry producers
- A decline in the price of key feed cost ingredients.
- The strategic behaviour of key customers such as Foodstuffs, Progressive Enterprises and global QSR chains.
- Continued advances in the efficiency of growing and processing of chickens over this period.

#### *Tegel is New Zealand's largest vertically integrated poultry producer*

Tegel is New Zealand's largest poultry producer and processes approximately 50% of all New Zealand's poultry. Tegel is vertically integrated, from growing chickens to delivering finished poultry products to customers, which provides greater process control, increased supply chain coordination and gives it better control over product quality.

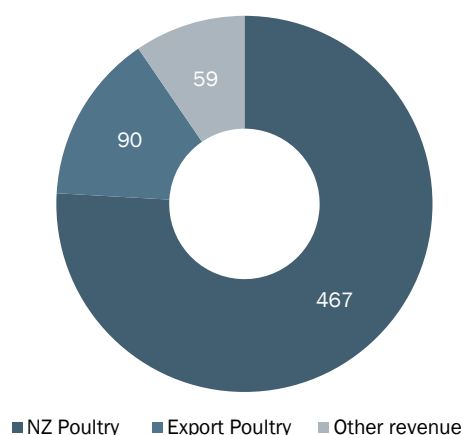
Tegel currently employs approximately 2,300 staff, with three vertically integrated and regionally separated operations in New Zealand.

Tegel increased the number of grower farms in the Waikato region that it has contracted by seven (of which five farms grow free-range poultry) in FY18. This should position Tegel well to increase volume by between 25,000 and 35,000 birds per annum over the next few years. Tegel may need to invest in new sheds and other infrastructure at these farms, with a portion of this expenditure having already been incurred in FY18.

#### *Tegel's business is underpinned by its New Zealand operations*

Tegel generated \$615 million revenue in FY18, the revenue split is illustrated in Figure 2.3. New Zealand poultry accounted for 75% of Tegel's revenue. Export sales generated 15% of revenue in FY18, of which exports to Australia comprise the largest share. Other revenue relates to the sale of feed (to other primary producers), offal (to pet food producers) and egg and chick sales (to other poultry producers) and accounts for 10% of Tegel's total revenue.

Figure 2.3: FY18 revenue split (NZ\$m)



Source: FY18 results

Tegel's products are sold across Retail Grocery, Foodservice/Industrial and QSR in New Zealand.

The Retail Grocery channel is one of Tegel's key source of sales and generated 62% of Tegel's New Zealand poultry revenue in FY18. Tegel supplies a broad range of frozen, fresh, value-added and smallgoods to leading New Zealand supermarket operators. Tegel has the highest market share<sup>2</sup> across branded poultry product categories including fresh whole birds, fresh value-added, frozen portions, frozen value-added and rotisserie chicken.

Tegel provides a range of products to the Foodservice/Industrial channel. This channel includes large food distribution companies and other manufacturers.

Tegel has a long history of servicing Quick Service Restaurants (**QSR**) in New Zealand and overseas, including Australia. It currently provides value-added products to large global chains such as KFC and Subway. Tegel management note that revenue can be lumpy due to new contract volume wins/losses and promotions run by QSRs.

#### *Tegel's share price has been affected by its financial performance since listing*

Tegel's share price has declined following its listing on 3 May 2016 at \$1.55 per share. The share price decline has been affected by various issues, including potential market overhang due to Claris's 45% shareholding. However, one of the key underlying drivers of the share price performance has been that Tegel's earnings were below the second year of its Initial Public Offering (**IPO**) forecasts and reported EBITDA has declined in FY18.

Tegel's revenue increased between FY16 and FY17 (adjusted for a comparable 52-week period) by approximately 3.6%. However, revenue growth slowed to 2.0% between FY17 (adjusted) and FY18. Domestic revenue on a 52-week basis grew by 3.9% in FY18, however, this was offset by export revenue decreasing over the FY16 to FY18 period.

Reported EBITDA has declined from \$75.6 million in FY17 to a provisional \$70.2 million in FY18. FY17 was a 53-week year for Tegel and on a like-for-like comparison EBITDA declined from \$72.0 million to \$70.2 million.

The FY19 Illustrative EBITDA range is \$65.5 million to \$70.2 million. The mid-point of the FY19 Illustrative EBITDA Range represents a decline in EBITDA for FY19 broadly in line with the decline observed in FY18 (once adjusted for the 53 weeks in FY17).

#### *Long-term financial performance will be driven by domestic volume growth and the ability to pass through rising commodity prices and achieve some price recovery with customers*

For the purposes of our Report, Tegel management have prepared the FY19 Illustrative EBITDA Range and extrapolated this out to FY23 for the purposes of our Discounted Cash Flow (**DCF**) valuation analysis, as discussed below.

Feed costs are anticipated to increase between FY18 and FY19 at: (1) 8.9% in the Low Case; and (2) 6.5% in the High Case. These cost increases are based on increased prices being observed in the market for key ingredients as at May 2018. From

<sup>2</sup> New Zealand market data for branded product market share based on Aztec data

FY19 onwards, feed costs are assumed to remain flat. Tegel management consider there are further efficiencies in feed conversion and potential optimisation in formulation of feed that could partially offset potential future commodity price increases.

The anticipated increase in revenue is underpinned by two key assumptions, namely an increase in volume of 4% per annum in the domestic market (consistent with growth in recent years, in both the Low Case and High Case) and a recovery in price by FY20 (from partially passing on feed cost increases) and some relatively minor further price inflation between FY21 and FY22.

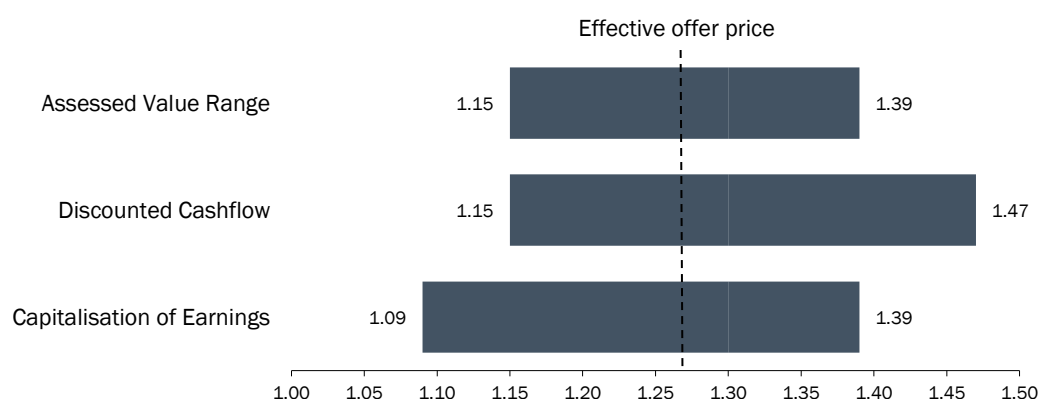
The ability to pass on price increases to customers is inherently uncertain. Since 2015, poultry prices have been declining. There is significant uncertainty as to the quantum of any price increase that may be able to be achieved and the competitive reaction of other industry participants.

There is also some uncertainty as to the level of future domestic volume growth to be expected in New Zealand. While the assumed level of 4% per annum is consistent with past growth observed over a period where poultry's share of plate increased significantly, it is possible that this share has plateaued at levels, which are already relatively high compared to other developed countries<sup>3</sup>.

## 2.2 Standalone valuation of Tegel

Our valuation results are summarised in Figure 2.4

Figure 2.4: Tegel valuation summary



Source: KordaMentha analysis

We have assessed the value of Tegel's equity – on a standalone basis – at between \$1.15 and \$1.39 per Tegel Share, with a midpoint of \$1.27 per share. This range is our estimate for 100% of Tegel and we would not expect minority parcels to trade at this level (in the absence of a takeover offer).

Our range has been determined after considering the results of our DCF and capitalisation of earnings valuation approaches.

We have assessed the high-end of our DCF valuation range by adopting the mid-point of the Illustrative EBITDA Range provided to us by Tegel, and applying a discount rate of 9.1%, as set out at Appendix 5.

We have modelled the low-end of our DCF valuation range by taking Tegel's low-end but further scaling results back by adjusting domestic volume growth from 4% to 2.5% per annum and applying a discount rate of 9.5%, as set out in Appendix 5. We consider this an appropriate scenario to consider at the low-end of the range because historical growth rates have been approximately 4% but that includes growth in poultry's share of plate, and research on the poultry industry in New Zealand suggests that poultry's share of plate may plateau<sup>4</sup>.

The low-end of our DCF valuation approach has also been informed by an alternative scenario where volume growth is as anticipated (4% per annum) but Tegel is unable to pass through all of the anticipated price increases to customers. While, on

<sup>3</sup> OECD FAO Database and Agricultural Outlook Report 2017 to 2026

<sup>4</sup> OECD FAO Database and Agricultural Outlook Report 2017 to 2026

balance, we consider it more likely than not that Tegel will be able to pass on some of the feed cost increase to customers, it remains to be seen the quantum of price increases which can be achieved, particularly given poultry prices have been declining since 2015.

The capitalisation of earnings approach results in a valuation range of \$1.09 to \$1.39 per Tegel Share, which is broadly similar but lower than the range calculated using the DCF approach.

We have adopted an earnings multiple of 8.0x to 9.0x normalised **EBITDA** to value Tegel, based on broadly comparable acquisition and trading multiples. In particular, we note that:

- The median multiple for comparable transactions is 7.9x historical EBITDA.
- Tegel was acquired in 2011 at an historical EBITDA multiple of 8.1x.
- The median multiple for large listed global and Trans-Tasman producers of animal proteins is 7.9x FY18 EBITDA. However, observed transactions for listed entities are generally for small parcels of shares and therefore typically exclude a premium for control that would normally apply to 100% of a company's equity.

Based on the FY19 Illustrative EBITDA Range provided to us by Tegel for FY19, we have adopted an underlying EBITDA range of \$65 million to \$70 million in our capitalisation of earnings approach.

Bounty's Effective Offer Price of \$1.27 per Tegel Share is within our assessed valuation range for Tegel's Shares. The mid-point of our valuation range lies at the Effective Offer Price of \$1.27 per Tegel Share (including the 4.1 cent dividend per share).

The Effective Offer Price represents a premium of 55% to the share price of \$0.82, prior to the Offer.

## 2.3 Potential synergies with Bounty

Although we have made enquiries of Bounty, it has declined to engage with us regarding potential synergies between the Tegel and Bounty businesses.

Bounty has made public some of its intentions, should it control Tegel, which include:

- Leveraging its existing sales channels and distribution networks to promote Tegel's products in the Philippines and Indonesia, initially, and subsequently to other markets in South East Asia.
- Establishing Tegel as a centre of excellence and innovation within the Bounty group.

Without direct engagement with Bounty, we have been unable to determine the extent to which synergies that may be extracted by Bounty might exceed the typical level of synergies inherent in our standalone valuation, via the inclusion of a control premium.

Tegel management have provided us with information that shows the compliance costs of being dual-listed on both the NZX Main Board and ASX are between \$2 million and \$3 million per annum. If Bounty were to delist Tegel from both the NZX Main Board and ASX then this compliance cost would be avoided. We have estimated the net present value of avoiding these compliance costs at approximately 7 cents per share. However, while this represents potential upside to the price that Bounty could pay for Tegel, we have not incorporated this in our standalone valuation assessment because:

- Achieving the synergies depends on Bounty reaching a shareholding of at least 90%.
- We have already allowed for a control premium in our standalone valuation, which could be reasonably expected to include the typical synergies available to acquirers, such as removing listing costs.
- Determining a fair allocation of any synergy value to the existing shareholders should relate to the degree to which the benefits can be replicated by other potential bidders and the level of competitive tension that can be created to extract value for those synergies. In general, we consider that the higher the level of benefits that can be provided by a range of alternative bidders, the higher the proportion of value enhancement that would typically be shared with the existing shareholders in the target company. Given Bounty will own or control in excess of 50% of Tegel's shares, an alternative bidder cannot control Tegel without Bounty reducing its stake and as such, in our opinion, there is limited pressure for Bounty to pay more for synergies, beyond that inherent in a typical control premium.

Should Bounty end up with a shareholding between 50% and 90% then minority shareholders may be able to share in any upside from synergies that accrue to Tegel. However, in those circumstances not only are synergies uncertain but any transfer pricing is likely to be undertaken on fair terms so that a substantial portion of any available synergies would be expected to reside in Bounty group companies as opposed to Tegel. It is, however, possible that Tegel would generate additional volumes from the relationship with Bounty.



## 2.4 Potential outcomes of the Offer

### 2.4.1 The Offer is successful

As a result of Bounty's existing shareholding and acceptances received under the Lock-Up Agreement to date, Bounty will be successful in achieving the minimum 50% shareholding in Tegel (assuming approval from the Overseas Investment Office is received), unless a condition to the Offer is not satisfied or the Offer is withdrawn with the consent of the Takeovers Panel.

Bounty is seeking to acquire 100% of the shares of Tegel. However, the Offer is not conditional on doing so.

If Bounty achieves a shareholding above 90% then it intends to invoke the compulsory acquisition provisions of the Takeovers Code, which would enable it to acquire the outstanding Shares and Performance Rights of Tegel and apply for Tegel to be delisted.

#### *Bounty will control Tegel*

Because the Offer will be successful (unless an Offer condition is not satisfied or the Offer is withdrawn with the consent of the Takeover Panel) Bounty will be able to control the future direction of Tegel.

If Bounty achieves a shareholding between 50% and 90% then Tegel would remain a listed company, albeit controlled by Bounty. Bounty would have effective control over key decisions put to shareholders and, depending on the make-up of the Board may have effective control over the day-to-day operations of Tegel. Bounty has indicated it would seek "...appropriate representation on the board..."

The Companies Act, NZSX Listing Rules and Independent Directors on Tegel's Board would provide some level of protection to minority shareholders. However, Bounty could appoint new directors to the Board and, because of its majority shareholding, would control the outcome of any ordinary resolution put to Tegel shareholders. Bounty would be prohibited from voting on any ordinary resolution that, if accepted, would result in an increase in its shareholding in Tegel.

After the Offer is complete, Bounty's shareholding in Tegel will be greater than 50%, which will allow it to control the dividend policy. Bounty has stated that following the Offer it will review the capital structure of Tegel (including Tegel's dividend policy, raising capital and taking on debt).

If Bounty achieves a shareholding less than 75% then the remaining shareholders will still be able to exert influence on certain substantive matters which, under the Companies Act, require approval by special resolutions, such as the liquidation of the Company or a transaction with a value more than 50% of Tegel's assets. As at 1 June 2018, Bounty has acquired 15.76% of Tegel Shares and has a lock-up agreement for an additional 45% giving it an effective holding of 61%. Given the likelihood that at least some of Tegel's other shareholders will accept the Offer then there is reasonable prospect that Bounty will achieve a shareholding more than 75%.

After 12 months from the closing of the Offer, Bounty would be entitled to acquire an additional 5% shareholding in Tegel per annum under the 'Creep' provisions of the Takeovers Code.

#### *Bounty's intentions for Tegel*

We have sought to engage with Bounty and have made some enquiries around its intentions for the Tegel business. However, Bounty has declined to engage with us. The only information we have on Bounty's intentions for Tegel are set out in public documents in connection with its Offer.

Bounty says it views its investment in Tegel as a "...long-term, strategically important business to the Bounty Group with no short to medium term intention to exit".

Bounty has not yet undertaken due diligence on Tegel. Therefore, it says it has not been able to make final determinations on its intentions for Tegel, nor the actions it will take to achieve "...appropriate integration and synergies."

### 2.4.2 The Offer fails

Because of Bounty's existing shareholding and the Lock-Up Agreement, the Offer will not fail unless Bounty's conditions are not met.

## 2.5 Share price after the Offer

Partial takeovers of New Zealand code companies are relatively uncommon. We have analysed eight recent takeover transactions completed between 2011 to 2018, for which the offeror ended up with a shareholding between 50.01% and 90%. These transactions are detailed in Table 2.1 below.

**Table 2.1: Historical share price performance following takeover offers**

Close Date	Offeror	Target	Offer price	Shareholding		Post offer price relative to offer price		
				Sought	Outcome	1 Week	1 Month	3 Months
Jan-18	O.G. Oil and Gas	NZ Oil and Gas	0.74	67.6%	72.6%	(8.1%)	(8.1%)	(18.2%)
Mar-17	Zhejiang RIFA	Airwork	5.40	75.0%	75.0%	(7.4%)	(19.3%)	(16.7%)
Apr-16	JBS	Scott Technology	1.39	50.1%	50.1%	16.5%	29.5%	35.3%
Mar-15	Silverlake	Finzsoft	3.00	100.0%	87.9%	6.7%	19.7%	13.3%
Sep-12	Austron	Wakefield	6.00	50.0%	50.0%	(17.1%)	(17.6%)	(29.5%)
Mar-12	BayWa	Turners and Growers	1.85	100.0%	73.1%	(4.9%)	(8.1%)	(13.0%)
Apr-11	Agria	PGG Wrightson	0.60	50.0%	50.0%	(23.3%)	(18.3%)	(20.0%)
Feb-11	Durante	Michael Hill	0.90	50.2%	50.2%	(2.2%)	(3.3%)	4.4%
<b>Median</b>						<b>(6.2%)</b>	<b>(8.1%)</b>	<b>(14.9%)</b>

Source: Capital IQ, Takeovers Panel website, independent adviser reports

After the close of a partial takeover, the share price has tended to fall below the Offer price, although in some cases (Scott Technology and Finzsoft) they have risen. This trend is broadly to be expected given share prices reflect prices for small parcels of minority shares whereas a partial takeover offer would typically include some premium for control.

For these eight successful partial takeovers, the median share price one month after the close of the offer was 8% below the offer price. After three months the median share price was 15% below the offer price.

If Bounty ends up with a shareholding between 50% and 90%, and in the absence of any other factors, we consider there is a real prospect that Tegel's share price may recede from current levels following the Offer. We also note that Bounty may reset dividend policy, which could also impact on Tegel's share price post the Offer.

## 2.6 Liquidity

Trading in the twelve months prior to 24 April 2018 is summarised in Table 2.2 and shows that volumes equivalent to approximately 48.4% of the Tegel Shares on issue were traded over this period.

**Table 2.2: VWAP and volume as at 24 April 2018**

	Share Price Low	Share Price High	VWAP	Volume (million)	Proportion of Issued Capital
One month	\$0.81	\$0.87	\$0.83	7.7	2.2%
Three months	\$0.81	\$1.15	\$0.98	34.6	9.7%
Twelve months	\$0.81	\$1.45	\$1.15	172.4	48.4%

Source: Capital IQ

The remaining free float of Tegel Shares will decrease following the Offer. The Offer is likely to attract acceptances from at least some of Tegel's shareholders (in addition to the shareholder subject to the Lock-Up Agreement). This will further reduce the liquidity of trading in Tegel's shares.

## 2.7 Likelihood of a price increase

It is possible that remaining shareholders may demand a higher price than the Effective Offer Price to accept the Offer.

The likelihood of Bounty increasing its price will be driven by whether it is comfortable with a shareholding between 50% and 90% and how close acceptances get to 90%.

If Bounty is comfortable owning a majority stake in a listed entity and acceptances do not get close to 90% then Bounty appears unlikely to increase its Offer price given it has already secured 61% of Tegel through its Lock-Up Agreement. We note that a shareholding at this level would present governance restrictions on Bounty and its ability to set the strategic direction of Tegel as it wishes. However, if Bounty gets close to 90% of the Tegel Shares accepting the Offer and an increase in price would secure a full takeover then it may be incentivised to increase its price.

## **2.8 Follow-on offers**

Should Bounty achieve a shareholding of less than 90% there is potential for follow-on takeover offers. The Takeovers Code allows serial offers without timing or pricing restrictions. Bounty would be free to offer more or less than the current Effective Offer Price of \$1.27 per Tegel share. There is no certainty that any follow-on takeover offers would eventuate.

## **2.9 Prospect of alternative takeover offers**

Once control has been achieved by Bounty, any future takeover offer needs the support of Bounty to succeed. Given the Lock-Up Agreement, Bounty will achieve control, unless the offer conditions are not met.

We consider it very unlikely that an alternative offer would be made for Tegel as any party wishing to acquire more than 20% of the Tegel Shares would either require Bounty to sell its newly acquired shareholding or need approval from shareholders, which could be blocked by Bounty.

There is no need for shareholders to accept the Offer early and shareholders do not need to do anything in relation to the Offer until close to its closing date.

## **2.10 Prospect of an investor acquiring a strategic shareholding less than 20%**

It is possible that an investor could acquire a strategic shareholding of less than 20% of Tegel without making a takeover offer or needing Bounty to accept. A shareholding of greater than 10% could be considered a blocking stake because it would prevent Bounty from achieving the 90% shareholding necessary to compulsorily acquire Tegel under the Takeovers Code. It is possible that any acquisition of a strategic shareholding could be made at a premium to the Offer price. There is no certainty that any party will acquire a strategic shareholding.

## 2.11 Summary

Given Bounty's existing shareholding and the Lock-Up Agreement, the Offer will be successful in achieving a shareholding of at least 50% in Tegel, unless a condition to the Offer is not satisfied or the Offer is withdrawn with the consent of the Takeovers Panel.

For remaining shareholders deciding whether to accept or reject the Offer, key issues to be considered when assessing the merits of the Offer include:

- The Offer represents a significant premium above the price that Tegel's shares have been trading at in advance of the Offer. The Effective Offer Price is a premium of 55% above the share price of \$0.82 prior to the Offer.
- The Effective Offer Price of \$1.27 per Tegel share sits within our assessed standalone valuation range of \$1.15 to \$1.39 per Tegel Share. Our valuation analysis relies on estimates for the Tegel business and there are risks to Tegel delivering on its growth plans, particularly in connection with assumed poultry price increases and continuing domestic volume growth.
- Our standalone valuation does not include any synergies that may accrue to Bounty above those inherent in the control premium, which has been applied to our valuation. However, there is uncertainty as to how any synergies would be realised unless Bounty were to effect a full takeover of Tegel and given the Offer has been successful in achieving control of Tegel there is no competitive tension to extract value for synergies beyond those typically valued in control premia.
- If holders of more than 10% of Tegel's shares reject the Offer, Tegel will continue to be listed on the NZX Main Board and ASX with Bounty having majority control. Bounty will be able to control key decisions facing Tegel, including dividend policy. Bounty has stated it will review Tegel's capital structure, including its dividend policy. Our analysis suggests, in the absence of any other factors, there is a real prospect that Tegel's share price may recede from current levels following the Offer. In the New Zealand market, following the close of a partial takeover, the target companies' share price has tended to fall below the Offer price. This is broadly to be expected given share prices reflect prices for small parcels of minority shares whereas a partial takeover offer would typically include some premium for control.
- In our view, the positives of accepting the Offer outweigh the negatives. The Effective Offer Price is within our assessed valuation range and there are limited prospects of alternative transactions. Rejecting the Offer could result in shareholders having a minority interest in Tegel, which will be controlled by Bounty. Minority shareholders would have a very uncertain dividend stream and face a high likelihood of a share price lower than the Effective Offer Price, in the short term at least.
- The closing date for the Offer is 25 August 2018, unless extended in accordance with the Takeovers Code.

For the Performance Rights we note that Northington Partners has prepared a Rule 22 report, under the Takeovers Code, which concludes that the prices offered for the Performance Rights are fair and reasonable in comparison to the amount offered for the Tegel Shares. On that basis, the merits of the Offer set out in the paragraph above are also directly relevant to the Performance Rights holders and given the Effective Offer Price for shares lies within our valuation range then it holds that the Offer price for Performance Rights would also lie within a reasonable range. However, we do note that Tegel has had an independent valuation of the Performance Rights undertaken, which is available to the rights holders (Tegel management), and that arrives at a higher value for the Performance Rights. In any event, we understand that the Offer for Performance Rights is not capable of acceptance by rights holders and any early payment or vesting of Performance Rights is at the discretion of Tegel's board of directors.

### *Acceptance or rejection of the Offer*

Acceptance or rejection of the Offer is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders and we note the Effective Offer Price will vary between shareholders given their respective tax position. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser.

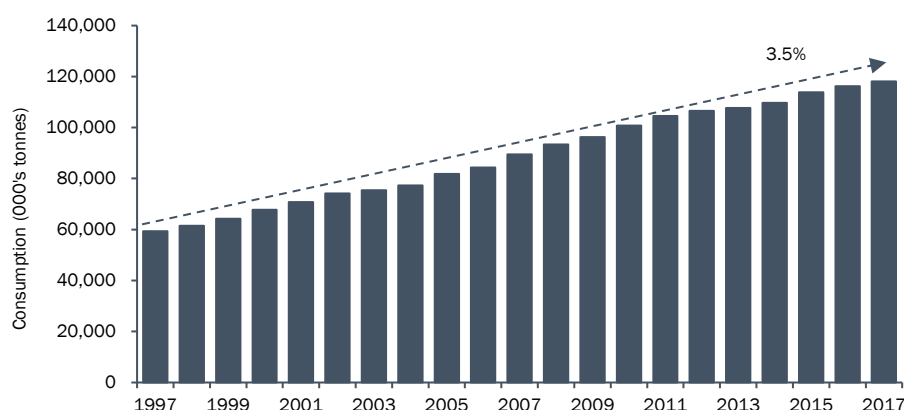
## 3 Industry Overview

### 3.1 Poultry Consumption

Global poultry consumption growth has been driven by a combination of: population growth, income growth, increased demand for protein, the lower price of poultry relative to other protein sources and the view that poultry is leaner and healthier than other meats.

Global poultry consumption has increased at a compound annual growth rate ('CAGR') of 3.5% between 1997 and 2017 as shown in Figure 3.1 below.

Figure 3.1: Global Poultry Consumption

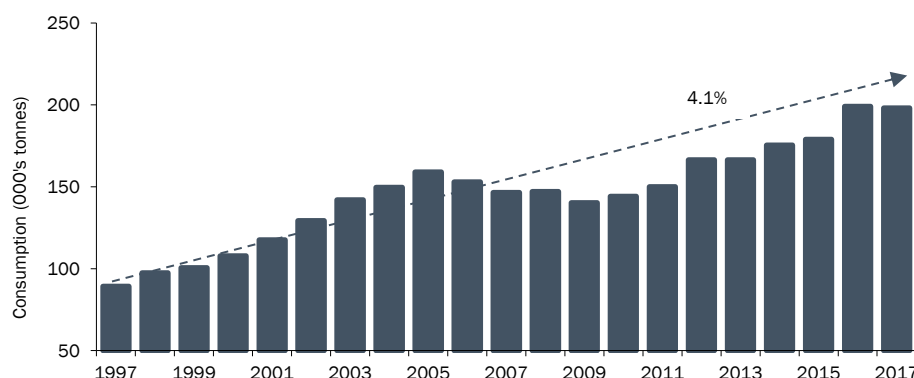


Source: OECD FAO Data

The future outlook for global poultry consumption is positive due to its attractive pricing in relation to other protein products and perceived health benefits. However, some commentators, including the OECD, project that growth will be at lesser rates over the next decade.<sup>5</sup>

New Zealand's poultry consumption growth has outpaced global poultry consumption growth over the 1997 to 2017 period, with a CAGR of 4.1% between 1997 and 2017, as shown in Figure 3.2. This is despite a temporary decrease in poultry consumption between 2006 and 2009, when a strain of the avian flu was transmitted to humans in Asia.

Figure 3.2: New Zealand Poultry Consumption



<sup>5</sup> OECD FAO Database and Agricultural Outlook Report 2017 to 2026 and Ibis World Poultry Processors Industry Report for New Zealand, May 2017

Source: OECD FAO Data

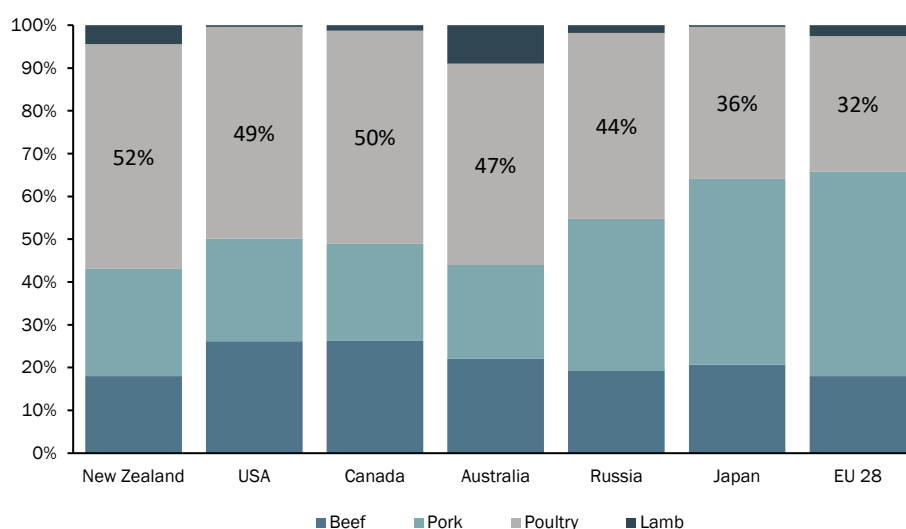
The drivers of poultry consumption growth in New Zealand between 1997 and 2017 include:

- Population growth at a CAGR of 1.2%<sup>6</sup> (and forecast to grow by 1.7% in the year to 30 June 2018)
- Income growth (as measured by real GDP per capita) at a CAGR of 1.6%<sup>7</sup>
- Increased poultry penetration (i.e. share of plate) due to the relative price attractiveness of chicken compared to other meat categories and the perception that chicken is leaner and healthier than other meats.

Poultry share of plate in New Zealand has increased from 23% to 52% of total meat consumption between 1997 and 2017, largely at the expense of lamb and beef.

Industry forecasts suggest that poultry's share of plate may have plateaued in New Zealand<sup>8</sup>. This projection is supported by: (1) the 'share of plate' already being within a relatively narrow band of 45% and 52% between 2013 and 2017; and (2) New Zealand already having a high 'share of plate' for poultry relative to other countries. However, New Zealand's total meat consumption (all types) is significantly below some other countries such as Australia and the United States.

**Figure 3.3: Poultry's share of plate in developed countries (2017)**



Source: OECD FAO Data

## 3.2 Competitive dynamics in New Zealand

### 3.2.1 Poultry Market Structure

The New Zealand poultry market is relatively stable and consolidated with three main poultry producers, Tegel, Inghams NZ and Brinks, which together produce around 95% of total production share<sup>9</sup>. In addition, Turks is another smaller poultry producer.

The New Zealand poultry market has a relatively stable structure with two large fully integrated players and two small players, but remains highly competitive, with the two largest participants in the industry having additional processing capacity for future growth.

<sup>6</sup> Statistics New Zealand website: <https://www.stats.govt.nz/topics/population>

<sup>7</sup> Real GDP per capita.

<sup>8</sup> OECD FAO Database and Agricultural Outlook Report 2017 to 2026 and Ibis World Poultry Processors Industry Report for New Zealand, May 2017

<sup>9</sup> Estimate calculated by Tegel management based on total share of poultry processed in New Zealand.



It is possible that further consolidation may occur between smaller players such as Brinks and Turks, which may improve the profitability of the industry. We note that the poultry market in Australia is largely a duopoly with Baiada and Inghams (with regional only smaller players specialising in various states).

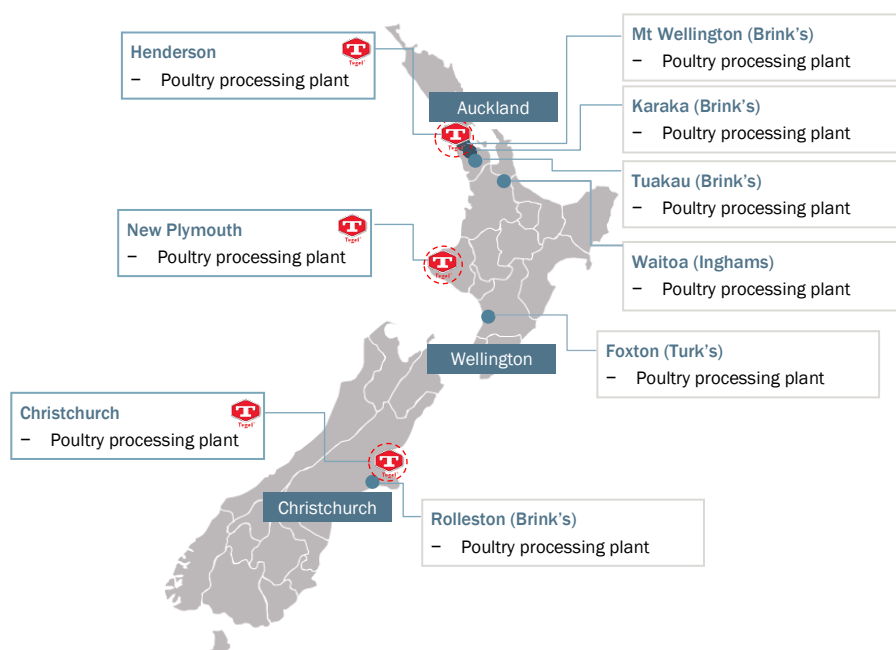
New Zealand poultry producers use two main farming methods – cage free sheds or free-range under a strict welfare code. There is a growing trend<sup>10</sup> towards consumers being more focused on purchasing humanely farmed animal proteins, at a higher price point. Tegel is well positioned to benefit from this trend as it's free range products are marketed under both Tegel and Rangitikei brands. Inghams NZ sell their free range products under the Waitoa brand. There are also very small poultry producers in New Zealand, such as Bostock, which differentiate their organic product to cater to this niche market.

Tegel has three vertically integrated processing sites. The only other poultry processor that is fully integrated in New Zealand is Inghams NZ, which has a large site at Waitoa in the upper North Island and a small site in South Auckland. Although it is difficult to validate from public information, we understand that Inghams NZ has lower overheads from focussing its operations on a single site compared to Tegel's three sites. However, it is also likely that this cost advantage is at least partially offset by Inghams higher distribution costs and feed costs which are predominantly sourced from Australia. Producers with multiple sites also provide better business continuity for customers in the event of any interruption.

In addition to its role as a primary poultry producer, Tegel also produces value-added products across all market segments including fresh, frozen and ready to eat. The manufacture of value-added products (which includes finger foods) has many competitors<sup>11</sup> including domestic niche manufacturers (e.g. Leader Products, Heller Tasty, and Shore Mariner). These companies all compete for a share of the processed food category within the Retail Grocery channel.

Poultry processing plants involved in serving the New Zealand market are shown below in Figure 3.4.

**Figure 3.4: Processing Sites in NZ**



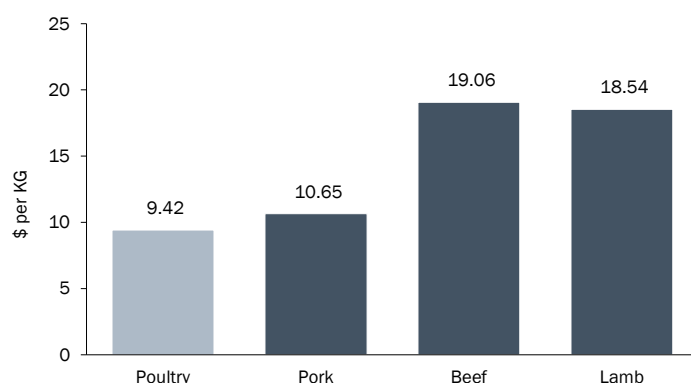
<sup>10</sup> US Organic Industry Survey 2017. <https://ota.com/resources/organic-industry-survey>

<sup>11</sup> The investor's guide to the New Zealand Processed Food Industry 2017 (June 2017)

### 3.2.2 Competition with other proteins

Poultry prices are currently well below the price of beef and lamb and marginally below the price of pork in the Retail grocery channel<sup>12</sup> as shown in Figure 3.5.

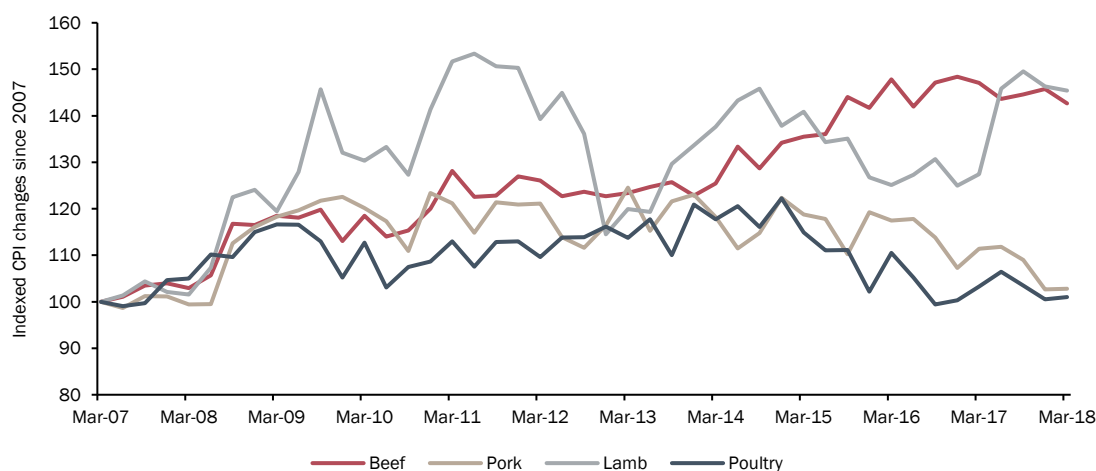
**Figure 3.5: Meat prices observed in Retail Grocery channel, April 2018**



Source: Tegel management

Poultry price inflation in New Zealand has remained below price inflation for lamb and beef prices over the 2007 to 2018 period as shown in Figure 3.6. Poultry and pork prices have remained flat between 2007 and 2018 with both commodities experiencing price decreases since early 2015. Meanwhile lamb and beef prices have increased at 3.5% and 3.3% per annum respectively.

**Figure 3.6: Meat-protein CPI Inflation (indexed to 100 in 2007)**



Source: Statistics New Zealand

New Zealand beef and lamb prices are set by export markets. The price rises from 2013 onwards have been driven by: (1) increased demand from consumers in Asia, (2) a drop in the cattle herd numbers in Australia, (3) a shortage in US beef production<sup>13</sup> and (4) the relative strength of the NZD as pricing is partly driven by international trade. Beef and lamb production relies on extensive use of farm land and water, which has become more expensive, whilst poultry and pork production require less intensive land use.

The pork price reduction has been driven by an increased global supply of pork in the US, Canada and Brazil mainly due to productivity improvements<sup>14</sup>.

<sup>12</sup> Prices are shelf prices observed by Tegel at selected New World, Pak'nSave and Countdown retail outlets

<sup>13</sup> <http://www.abc.net.au/news/2017-06-08/why-is-australian-meat-so-expensive/8596726>

<sup>14</sup> Rabobank Pork Quarterly Q1 2018

Reasons for the poultry price decrease since February 2015 include:

- Additional production capacity of Tegel and Inghams NZ, which has been built based on forecast volume demand.
- The competitive environment among poultry producers.
- The decline in the price of key feed cost ingredients.
- The strategic behaviour of key customers such as Foodstuffs, Progressive Enterprises and global QSR chains.
- Continued advances in the efficiency of growing and processing of chickens over this period.

### 3.2.3 Domestic Customers

Domestic customers can be broadly categorised as (1) Retail grocery, (2) Foodservice/Industrial, and (3) QSR. These groups are described below:

- The Retail grocery segment is in effect a duopoly in New Zealand with the two main players being Foodstuffs and Progressive Enterprises. Both retailers supply the main poultry producers' branded products as well as having their own private label brands where product is negotiated on fixed-term supply commitments.
- The Foodservice/Industrial segment relates to providing a full range of products to hotels, restaurants, caterers and distributors, as well as products to other processors and manufacturers as meal components for value-added ready meals.
- The QSR segment includes several global chains. The KFC chain is the largest customer for poultry in New Zealand. KFC awards long term contracts by select geographies within New Zealand for its volumes. It recently swapped volume from Inghams NZ to Tegel for various geographies.

## 3.3 Bio-security

New Zealand's relatively isolated location and strict bio-security controls have made it the only country in the world free of all major avian diseases. This provides New Zealand poultry producers with a significant point of difference and advantage in export markets.

New Zealand's poultry is considered some of the healthiest in the world from a bio-security perspective.

The lack of avian influenza disease results in ease of access for Tegel in international markets and improved efficiency in production due to lower mortality rates and better feed conversion ratios due to there being no requirement for vaccination. This also contributes to New Zealand's poultry's "clean and green" image and premium pricing in export markets.

## 3.4 Global trade for poultry

### 3.4.1 Export markets

Tegel has been developing its export markets in recent years. The export strategy for poultry producers in New Zealand is based on: (1) New Zealand being well regarded internationally as a premium food producing country with mature export industries for other protein sources (i.e. beef, lamb and venison); (2) New Zealand being one of the few countries that has never had an outbreak of avian flu; and (3) better productivity (with faster bird growth and lower days to maturity).

New Zealand has several free trade agreements which have been put in place to make international trade easier between countries by reducing trade barriers.

Tegel's largest export market is currently Australia. In 2016, New Zealand poultry producers were granted wider market access that included the ability to sell raw poultry products. Prior to that only fully cooked poultry products could be exported from New Zealand to Australia.

The poultry market in Australia is highly competitive for the following reasons:

- The Australian market operates in a trade surplus environment<sup>15</sup>, with production of poultry exceeding consumption and accordingly there is intense competition in the domestic market.

<sup>15</sup> OECD FAO Agricultural Outlook 2017-2025

- Inghams, the poultry producer with the highest market share in Australia, expanded its breeding, processing and feed production facilities in South Australia, with a reported A\$275 million investment in FY17<sup>16</sup>, with market commentators suggesting production capacity is likely to exceed consumption for the foreseeable future.
- Like New Zealand, poultry's share of plate is relatively high, with analysts suggesting further penetration growth may be limited.

Partially offsetting these issues, in terms of Australia as an opportunity for Tegel, poultry processing and manufacturing in New Zealand has some comparative advantages over Australia including:

- New Zealand is free of major avian diseases, meaning birds have lower immune challenges which results in poultry needing a shorter time to mature and improves efficiency.
- Primary produce from New Zealand typically has a strong brand internationally and other proteins such as beef and lamb from New Zealand are marketed as premium products to global supermarket chains and QSRs.
- Lower manufacturing wages, including a lower minimum wage of \$16.50 in New Zealand compared to A\$18.29 (approximately \$19.50) in Australia and the manufacturing workforce (generally) being less unionised than Australia.
- The close proximity of grower farms to processors reduces transportation costs and wastage which increases efficiency (due to New Zealand's relatively small size).

New Zealand is the only country that can export raw poultry products to Australia, which creates a strong barrier to entry for other customers exporting to Australia.

The Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) agreement was signed by its members, including countries from Asia, the Pacific and the Americas, on March 2018 which covers a market of 500 million people with a combined GDP of NZ\$14.5 trillion or 13.5% of global GDP. This includes large markets such as Japan where there were previously significant tariffs for agricultural produce from New Zealand. Under the CPTPP these tariffs will be reduced over time. IBISWorld, a research firm, notes that demand for imported premium poultry products is increasing. This may be due to food safety issues such as the avian flu outbreak which has impacted poultry production in many Asian countries. According to market commentators, given the distribution costs and the relative cost structures of other competing nations (e.g. Brazil), it is typically the fresh butchery and frozen value added category that represents a profitable opportunity for New Zealand poultry processors in Asia due to the provenance of New Zealand poultry and the associated clean and green, high quality image.

### 3.4.2 Poultry market in Philippines

The Bounty Fresh Group is a large poultry producer in the Philippines. The Bounty Fresh Group also owns multiple QSR chains with over 1,500 outlets across the Philippines. In its Takeover Offer, the Bounty Fresh Group highlighted its intention to leverage its sales channels and distribution networks to promote Tegel's products and boost exports into the Philippines.

Philippines is not a member of the CPTPP. However, market access for New Zealand poultry was opened in 2016 under the Overseas Market Access Requirement (OMAR) notification for the Philippines.

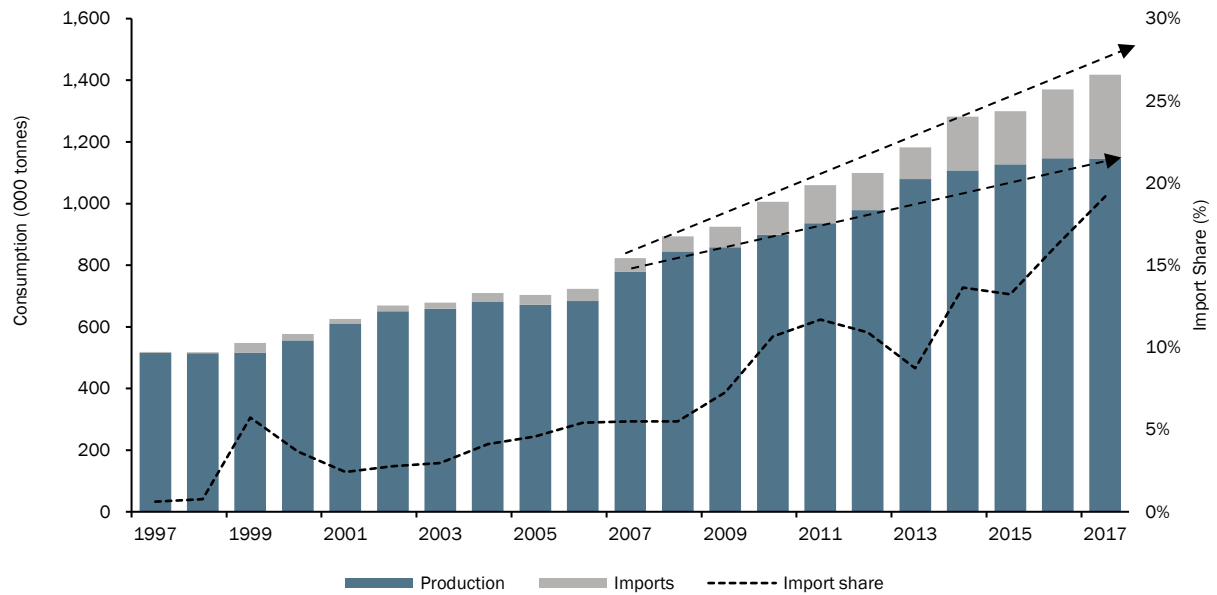
Supply issues such as the avian flu outbreaks in 2017<sup>17</sup> have impacted poultry production in the Philippines and the underlying growth in consumption of poultry has created a shortage of poultry which has been filled by imports. Imports of poultry to the Philippines totalled 272,000 tonnes in 2017, which was larger than the entire New Zealand market (198,000 tonnes).<sup>18</sup>

<sup>16</sup> <http://www.adelaidenow.com.au/business/sa-business-journal/ingham-australia-to-invest-275-million-in-expanding-its-sa-business-and-provide-850-new-jobs/news-story/431b67769d3001883e16c74129549bce>

<sup>17</sup> <https://www.reuters.com/article/us-health-birdflu-philippines/philippines-reports-first-avian-flu-outbreak-to-cull-200000-birds-idUSKBN1AR0AS>

<sup>18</sup> OECD FAO Data

Figure 3.7: Philippines poultry consumption and import share, 1997 to 2017



Source: OECD FAO

The poultry market in the Philippines may represent a significant opportunity for Tegel in the event Bounty controls the business. We understand that Bounty has extensive existing distribution channels in the Philippines.

### 3.5 Operating model of a vertically integrated poultry producer

#### 3.5.1 Stages of the poultry lifecycle

A vertically integrated poultry producer, such as Tegel, is involved across all stages of the poultry lifecycle. These stages are described below in Table 3.1.

**Table 3.1: Operating model of a vertically integrated poultry producer**

Division	Description
Feed-milling	<ul style="list-style-type: none"> <li>Feed-milling involves the process of mixing raw ingredients and nutrients to create pellets of nutritionally balanced feed for breeder farms and grower farms.</li> </ul>
Breeding	<ul style="list-style-type: none"> <li>Breeder farmers raise parent stock for egg laying.</li> <li>The poultry producer can control and monitor feed intake, body weight and the health status of the flock and facilities, with the aim of ensuring chickens deliver the highest quality eggs.</li> </ul>
Hatching	<ul style="list-style-type: none"> <li>Eggs delivered from breeder farms to hatcheries.</li> <li>Fertile eggs incubated in a bio-secure environment for 21 days, with modern hatching technology to promote the efficient and healthy hatching of chickens.</li> </ul>
Grower Farming	<ul style="list-style-type: none"> <li>Hatched chickens are delivered to grower farms.</li> <li>The poultry producer typically maintains ownership of the chickens and supplies feed requirements.</li> </ul>
Processing	<ul style="list-style-type: none"> <li>The grower farms deliver the chickens to the processing plant. Processing can include primary, secondary and value-added processing into finished product.</li> <li>Strict controls in health and safety and risk management are maintained at processing facilities, and plants are inspected regularly by the Ministry for Primary Industry or government authorities and customers.</li> </ul>
Distribution	<ul style="list-style-type: none"> <li>Poultry producers typically require a chilled and frozen distribution network.</li> <li>Freight is predominantly outsourced to third parties.</li> </ul>

Source: Tegel Product Disclosure Statement

In New Zealand, the Breeding and Grower Farming stages described above involve third party farms which are typically contracted by the poultry producer. The smaller players such as Brinks and Turks also rely on third parties for the feed-milling stage where larger players do not.

A vertically integrated producer typically incurs a mix of fixed and variable costs. There are a range of fixed costs incurred in operating processing plants including management overhead, energy costs, and food safety/compliance costs. Feed costs and manufacturing labour costs are largely variable. We note that large processing plants typically have more automation and thus the manufacturing labour cost component of these processing plants will be less than processors with multiple smaller sites.

#### 3.5.2 Industry cost benchmarks

IBISWorld, a research firm, estimates that the Earnings Before Interest and Tax ('EBIT') margin across poultry processors in New Zealand in 2017 was approximately 10%<sup>19</sup> (which is broadly in line with Tegel's EBIT margin of 9% over the same period).

The cost structure of poultry producers varies according to scale, product offerings (e.g. standard or value-added), the level of plant ownership and downstream sales channels. Wage costs and cost of sales are the two main operating cost categories.

<sup>19</sup> We have compared cost benchmarks reported by the IbisWorld, Poultry Processing Report dated May 2017 with Tegel's financial performance for the year ended 30 April 2017.



The main cost of sales expenses<sup>20</sup> for poultry producers are typically feed costs (to the extent feed is provided to contracted farms) and the cost of live poultry purchased from farms. Tegel is relatively efficient in the growing of poultry (this includes feedmilling, breeding, hatching, farming) due to Tegel having:

- Its own feedmills
- Well-established breeding programmes
- Low feed conversion ratios
- Grower farms near its processing sites.

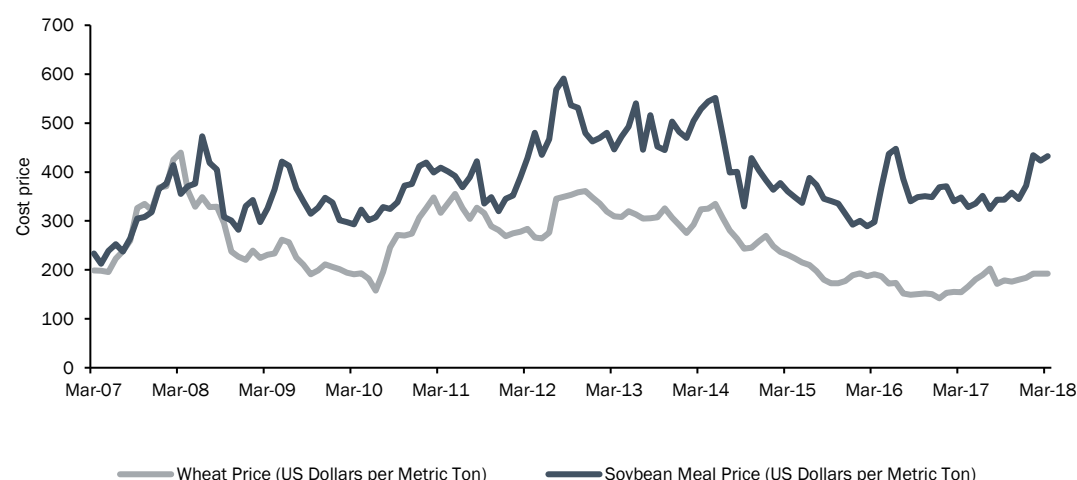
### 3.6 Feed costs are typically the largest cost driver for poultry producers

Feed cost is the largest operating cost for poultry producers and is subject to both commodity price and currency fluctuations which can vary significantly year on year.

Poultry producers have flexibility in terms of the mix of feed that is used in poultry breeder and grower farms. We note that during the last five years Tegel has had a feed mix comprising of varying amounts of soybean meal, wheat, corn and sorghum. These commodities have shown significant price fluctuations over the past ten years, however have been relatively stable over the past three years.

For illustration we have shown the wheat and soybeans prices over the last ten years in Figure 3.8 below:

Figure 3.8 Feed cost price chart



Source: IndexMundi

All poultry producers are exposed to commodity price fluctuations and to a certain degree these can be expected to be passed through to customers. Major QSR contracts are typically structured on a feed cost plus margin basis which provides some protection against ingredient cost increases. Furthermore, due to the relative price dynamics where poultry is the cheapest source of protein, relatively small increases in price is unlikely to lead to a significant substitution to other protein sources. However, wheat and soybean prices in FY18 were at low levels and anticipated increases in their prices will affect the cost of producing poultry products.

<sup>20</sup> We have excluded manufacturing wage costs from Tegel's reported Cost of sales as the IBISWorld report shows total wage costs separately.

## 4 Tegel Profile

### 4.1 Background

#### 4.1.1 Management

Tegel's senior management team is led by Phil Hand (CEO).

The senior management team are highly experienced in the industry and have, on average, been with Tegel for approximately 12 years.

#### 4.1.2 Overview

Tegel is New Zealand's largest poultry producer and processes approximately 50% of all of New Zealand's poultry. It has the highest market share across branded poultry product categories and has an export business which is positioned for growth.

Tegel currently employs approximately 2,300 staff, with three vertically integrated and regionally separated operations in New Zealand.

A timeline of key events since Tegel was established in 1960 is shown below:

**Figure 4.1: Timeline of key events in Tegel formation**



### 4.2 Tegel's business model

Tegel has primary processing capacity of 75 million birds per annum across its three processing sites<sup>21</sup>. Tegel's processing capacity of 75 million birds assumes that:

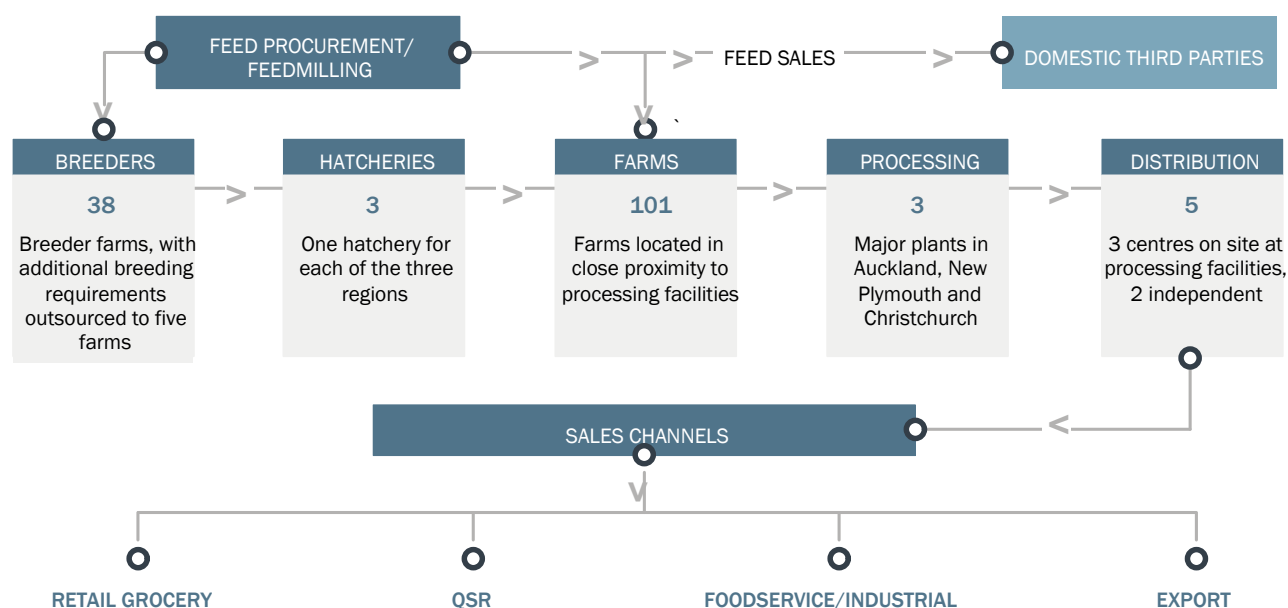
- All three processing plants operate five days a week for two shifts per day.
- Plant capacity is an estimate based on running at 90% to 95% utilisation through the working week, with allowance for outages or interruptions due to weather and maintenance on the weekends.

In FY18, Tegel processed approximately 58 million birds, which means it has around 30% additional processing capacity on the above basis. However, if shift configurations were changed then potential capacity could be increased.

Tegel is vertically integrated from growing chickens to the delivering of finished poultry products to its customers, which provides greater process control, increased supply chain coordination and gives it better control of product quality.

<sup>21</sup> This is processing capacity. Tegel would require significantly more grower farms to be able to source 75 million birds per annum.

Figure 4.2: Tegel business model



Source: Tegel management

Property assets related to the production stages described above are summarised in Table 4.1 below:

Table 4.1: Tegel's Property Portfolio by Production Stage

Location	Auckland	New Plymouth	Christchurch
Feed-Mills	Owned	Owned	Leased
Breeder Farms	38 farms (with the majority operated by Tegel and a small number outsourced)		
Hatcheries	Owned	Owned	Leased 15 years + 7x10yr options
Grower Farms	101 farms operated under contract		
Processing Plants	Leased 20 years + 6x10yr options	Leased 15 years + 7x10yr options	Leased 15 years + 7x10yr options
Distribution Centres	Leased 2 facilities	Leased 2 facilities	Leased 1 facility

Source: Tegel management

Tegel's processing plants have a relatively high level of automation. Tegel management say that the level of automation is comparable to its main competitor, Inghams NZ. We note that Tegel plans to hire an additional 100 manufacturing staff to keep up with estimated processing volumes in FY19. Tegel management say that it has a relatively high-level of staff retention (with many staff serving for very long tenures) and this improves overall manufacturing efficiency by reducing the amount of training and onboarding time.

Tegel has focused on increasing its manufacturing efficiency through investment in capital expenditure over the last three years that has reduced wastage and increased efficiency. Examples include automated deboning machines, forming machines that reduce wastage and automated bagging equipment. Tegel also has relatively new energy efficient freezers which are used for value-added frozen convenience foods (e.g. chicken nuggets, burgers and other QSR products).

Tegel has increased the number of grower farms in the Waikato region that it contracts by seven (of which five farms grow free-range poultry) in FY18. This should position Tegel well to increase volume by between 25,000 and 35,000 birds per annum

over the next few years. Tegel may need to invest in new sheds and other infrastructure at these farms, with a portion of this expenditure already incurred in FY18. We understand that Tegel has contracted to remunerate grower farms on a per square metre basis, rather than on the number of birds produced.

Tegel operates under strict adherence to rigorous food and safety process controls and is regularly audited by regulators and customers including:

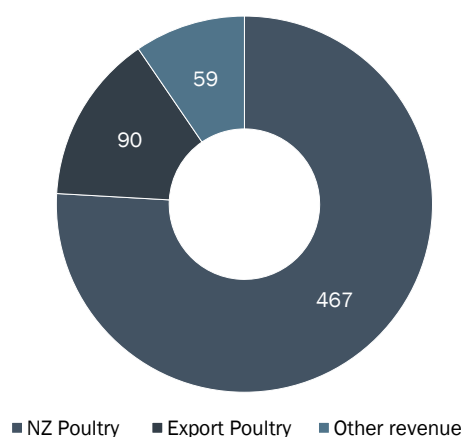
- Ministry of Primary Industries ('MPI') audits every three months
- Woolworth Quality Assurance ('WQA') audits every six months on behalf of Progressive Enterprises
- Foodstuffs audits
- Regular audits from global QSR's including Subway and KFC.

Tegel's processing plants are Halal certified, which means that it can export fresh and frozen products to the Middle East and other countries with Halal requirements.

### 4.3 Revenue by channels and products

Tegel generated \$615 million of revenue in FY18, the revenue split is illustrated in Figure 4.3. New Zealand poultry accounted for 75% of Tegel's revenue. Export sales generated 15% of revenue, of which exports to Australia comprised the largest share. Other revenue relates to the sale of feed (to other primary producers), offal (to pet food producers) and egg and chick sales (to other poultry producers) and accounted for 10% of Tegel's total revenue.

Figure 4.3: FY18 revenue split (NZ\$m)



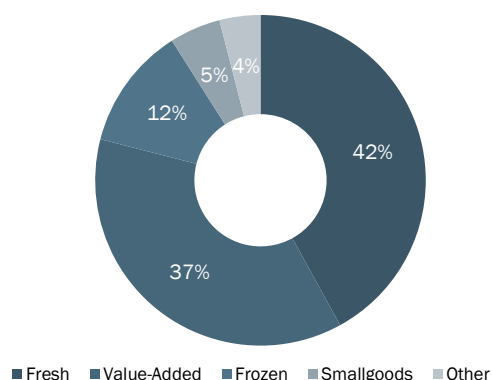
Source: FY18 results

### 4.3.1 New Zealand poultry revenue

#### Products

Tegel offers a diversified mix of mainly chicken based protein products to different market segments. Tegel's product offering can be broadly categorised into fresh, frozen, value-added and smallgoods products. The fresh and value-added product categories generated the greatest share of revenue in FY18 as shown in Figure 4.4.

Figure 4.4: New Zealand revenue by product category for FY18



Source: Tegel management

Tegel's product categories along with several key products within each category are described below:

Table 4.2: Tegel's product categories

Category	Key products
Fresh	<ul style="list-style-type: none"> <li>• Fresh whole chickens</li> <li>• Bone-in chicken portions</li> <li>• Deboned chicken fillets</li> <li>• Fresh whole turkeys</li> </ul>
Frozen	<ul style="list-style-type: none"> <li>• Frozen whole chickens</li> <li>• Frozen cut up portions</li> <li>• Frozen whole turkeys</li> </ul>
Value-Added	<ul style="list-style-type: none"> <li>• Free-range chicken</li> <li>• Formed and coated products including nuggets, schnitzels and burgers</li> <li>• Chilled ready-to-eat deli style products including shaved, sliced and shredded chicken</li> <li>• Ready to cook pre-prepared meal solutions including kebabs, crumbed fillets, schnitzels and wraps</li> <li>• Hot cooked chicken</li> </ul>
Smallgoods	<ul style="list-style-type: none"> <li>• Beef burgers</li> <li>• Fresh and pre-cooked sausages</li> <li>• Crumbed and formed meat products</li> </ul>

Source: Tegel management

### Brands and Private Labels

Tegel manufactures poultry products and smallgoods under its own brands and under the private labels of the two large supermarket chains in New Zealand. We understand from Tegel management that private label supply arrangements are typically fixed-term arrangements and represents approximately 17% of Tegel's Retail Grocery revenue.<sup>22</sup>

Tegel's key brands and major customers in New Zealand are summarised below:

**Table 4.3: Brands and customers by channel**

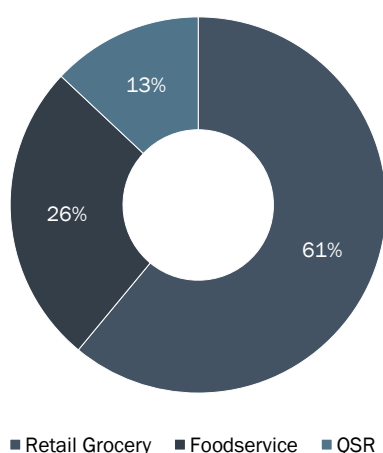
	Retail Grocery	Foodservice / Industrial	QSR
<b>Overview</b>	Supplies a full range of poultry products and smallgoods to both major supermarket chains in NZ	Supplies a full range of poultry products and smallgoods to processors, distributors and a range of commercial customers	Supplies a range of value-added products to QSR chains
<b>Key Brands</b>	  	  	N/A
<b>Major Customer Examples</b>	 	 	 

Source: Tegel management

### Channels

Figure 4.5 sets out Tegel's revenue split by channel for FY18.

**Figure 4.5: NZ revenue by channel for FY18**



Source: FY18 results

<sup>22</sup> Based on Aztec scan data for the years ended February 2016, 2017 and 2018. Aztec scan data is only obtained for the two large supermarket chains in New Zealand.



Tegel's products are sold across Retail Grocery, Foodservice/Industrial and QSR in New Zealand.

The Retail Grocery channel is one of Tegel's key source of sales and generated 62% of Tegel's New Zealand poultry revenue in FY18. Tegel supplies a broad range of frozen, fresh, value-added and smallgoods to New Zealand's supermarkets, including the two major operators Foodstuffs and Progressive Enterprises, in the Retail Grocery channel. Tegel has the highest market share<sup>23</sup> across branded poultry product categories including fresh whole birds, fresh value-added, frozen portions, frozen value-added and rotisserie chicken.

Tegel provides a range of products to the Foodservice channel. The Foodservice channel includes large food distribution companies such as Bidfood, Compass Group and Countrywide and other manufacturers including Heinz and McCain Foods. The Foodservice channel generated 25% of Tegel's New Zealand poultry and smallgoods revenue in FY18.

Tegel has a long history of servicing QSR's in New Zealand and currently provides value-added products to large global chains such as KFC and Subway. Tegel has provided many innovative products to these chains as part of its New Product Development ('NPD') programme. The QSR channel generated 13% of Tegel's New Zealand poultry revenue in FY18. Tegel management note that revenue can be lumpy due to new contract volume wins/losses and promotions run by QSRs.

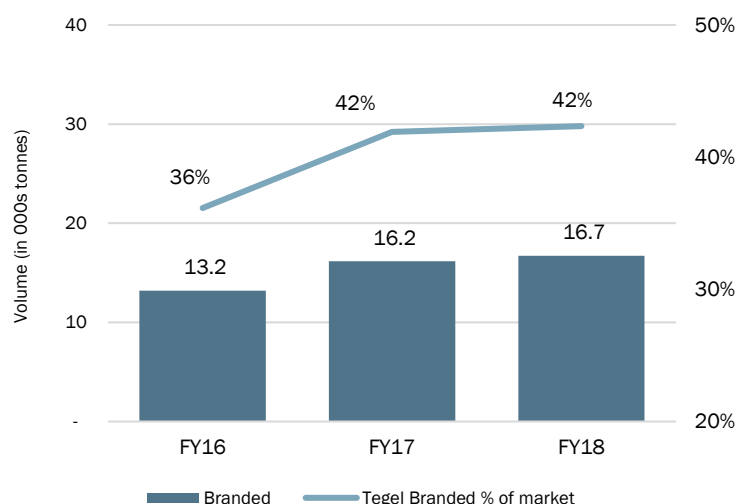
### New Zealand Poultry Growth Strategy

Tegel's New Zealand growth strategy includes: (1) a brand refresh for its packaged products, (2) expanding its free-range product volumes and (3) NPD. Each of these initiatives are discussed below:

#### 1. Brand Refresh

Tegel launched a rejuvenated product portfolio and packaging design in FY17 to deliver increased consumer brand preference for Tegel and Rangitikei branded products. The brand refresh coincided with the launch of new valued added products, targeted at time poor consumers, such as 'Quick Cook' convenient meal components. Tegel branded product market share (as a percentage of total poultry products) has increased from 36% in FY16 to 42% in FY18 period, as shown in Figure 4.6.

Figure 4.6: Growth in Tegel Branded products



Source: Aztec Scan Data

#### 2. Free-range product growth

There is an established trend in developed countries towards increasing demand for free-range and organic poultry<sup>24</sup>. Tegel is fulfilling this demand with ranges of core and value-added products under both the Tegel and Rangitikei brands.

Tegel has continued to increase capacity for producing greater volumes of free-range poultry since it acquired the Rangitikei brand in 2003 to address the growing consumer preference towards free-range poultry. In addition it launched the Tegel Free

<sup>23</sup> New Zealand market data for branded product market share based on Aztec data

<sup>24</sup> <https://www.bloomberg.com/news/articles/2017-09-21/americans-are-devouring-organic-chickens-as-farm-sales-surge>

Range brand in FY17. Tegel secured long term contracts with five new free-range grower farms in FY18. These farms will increase Tegel's free-range capacity by 169%.

### 3. New Product development



Tegel considers NPD to be an important driver of poultry consumption, as well as a source of competitive advantage.

Tegel has invested in technology and equipment and a new research and development facility. Tegel has a dedicated specialist NPD team of 12 staff. We understand that Tegel actively takes new product ideas to its Retail, Foodservice and QSR customers, to ensure continued innovation that drives growth.

Tegel developed 29 new products in FY17 and 59 new products in FY18. New products developed since FY15 generated approximately 9% of Tegel revenue (\$56 million) in FY18.

These new products include convenience meal solutions and ready-to-eat meal solutions as described below:

**Table 4.4: Brands and customers by channel**

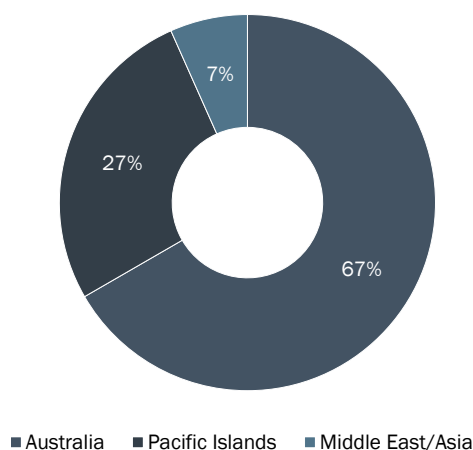
Category	Description	Examples
<b>Ready to Eat Meal Maker</b>	Premium branded ready-to-eat products, which can be used to prepare family meals	
<b>Convenience Meal Solutions</b>	Pre-marinated ready-to-cook range, released in both the Retail and Foodservice channels	

Source: Tegel management

### 4.3.2 Export markets

Tegel has an established poultry export business. In FY18, approximately 94% of Tegel's export revenue was generated through sales to Australia and Pacific Island countries, as shown below in Figure 4.7 below.

**Figure 4.7: Export revenue by geography**



Source: Tegel management

While Tegel has historically generated most of its export revenue from Australia and the Pacific Islands, management consider significant growth potential exists in Asia and the Middle East over the next five years. Tegel offers a range of fresh, frozen and value-added products to across its export markets.

### Australia

Tegel's main revenue source in Australia is the production of value-added products for QSRs, including Subway and Hungry Jacks. Its revenue can be lumpy due to new contract volume wins/losses and the timing of customer-led promotions.

Since November 2016, Tegel has expanded its share of Retail and Foodservice/Industrial channels, focusing on branded sales expansion.

### Asia and the Middle East

Tegel management consider that New Zealand's reputation as a premium food processing nation combined with its unique status of being free of the three major avian diseases is a competitive advantage in the premium branded poultry market in Asia.

Tegel continues to build its "100% Pure New Zealand Premium Chicken" brand across these markets.

Tegel has strong supplier relationships with global QSRs and because of its track record, Tegel can leverage these relationships to enter new markets as part of the supply chain of these global QSRs.

An overview of Tegel's current export markets is set out below:

**Table 4.5: Export market overview**

Market	Current Position
Australia	<ul style="list-style-type: none"> <li>Tegel is the third largest player in value-added across Retail, Foodservice/Industrial and global QSR customers in Australia.</li> <li>New Zealand poultry producers are now able to supply both raw and cooked product into Australia.</li> </ul>
Pacific Islands	<ul style="list-style-type: none"> <li>Tegel supplies a range of fresh and frozen, core and value-added products to a range of customers across the Pacific Islands.</li> </ul>
Middle East	<ul style="list-style-type: none"> <li>Tegel supplies the largest premium supermarket chains (Spinneys and Waitrose) in Dubai with its premium chicken offering across core and value-added products (both fresh and frozen). Tegel is also expanding sales in Bahrain</li> <li>Tegel is also expanding its position in Foodservice across the region.</li> </ul>
Hong Kong	<ul style="list-style-type: none"> <li>Tegel supplies its premium branded product (both fresh and frozen) into a major supermarket chain and Foodservice customers in Hong Kong.</li> </ul>
Other Asian Countries	<ul style="list-style-type: none"> <li>Tegel is planning a staged global export expansion strategy, based on its premium offering, that is targeting entry into additional countries in Asia (e.g. Japan, Philippines).</li> <li>Tegel has access to the Philippines with an initial order secured with a large QSR operator for premium value-added products.</li> <li>We note that Tegel is yet to generate any material recurring revenue from other Asian countries.</li> </ul>

Source: Tegel management

### 4.3.3 Other Revenue

Tegel's feedmills have excess spare capacity. This provides Tegel with options to generate further revenue by selling feed formulations to table egg producers, other poultry producers and other primary producers. This revenue stream is a relatively low margin business.

Tegel's core processing business generates offal which it sells as raw material to pet food manufacturers. The pet food industry is projected to grow at a faster rate than packaged foods for human consumption<sup>25</sup>. Tegel management has identified the opportunity to reposition from being a low value raw materials supplier to a producer or exporter (which, if approved and completed, could occur through either in-house capital expenditure development or acquisitions of established pet food businesses).

<sup>25</sup> <http://fortune.com/2018/03/21/pet-food-sales-acquisitions/>

## 4.4 Financial Performance

### 4.4.1 Group financial performance

Table 4.6 summarises the Group financial performance for Tegel for the period between FY16 and FY18. FY16 and FY17 are based on audited financial statements. The FY18 results have not yet been audited. We have also presented FY17 on a 52-week basis for comparability purposes<sup>26</sup>.

We note, we have been unable to disclose detailed financial information due to its commercial sensitivity.

**Table 4.6: Group Financial Performance (\$ 000)**

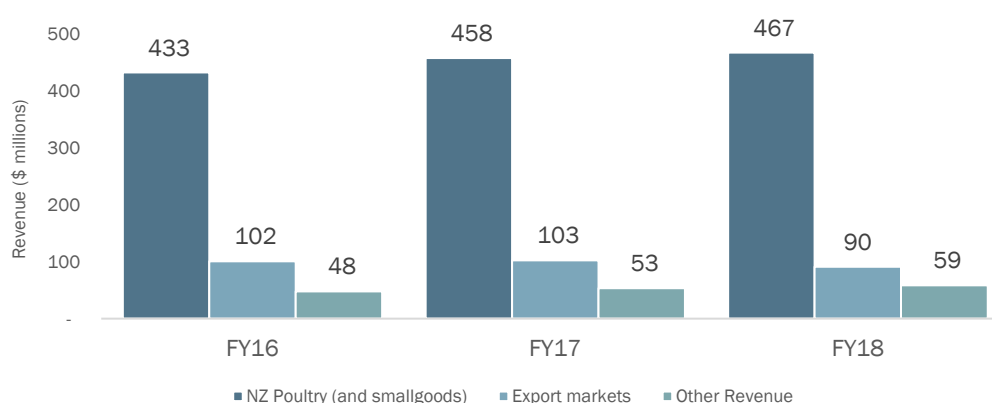
	<b>FY16</b>	<b>FY17</b>	<b>FY17 (adj)</b>	<b>FY18</b>	<b>FY17 (52 wks)</b>
	<b>Actual<sup>27</sup></b>	<b>Actual</b>	<b>52 wks</b>	<b>Unaudited</b>	<b>v FY18</b>
					<b>% change</b>
Revenue	582,361	613,978	603,238	615,435	2.0%
Cost of sales	(434,925)	(468,922)	(462,322)	(469,682)	1.6%
Gross profit	147,436	145,056	140,916	145,753	3.4%
GP%	25.3%	23.6%	23.4%	23.7%	
Expenses					
Distribution	(50,479)	(53,173)	(52,625)	(58,694)	11.5%
Administration	(40,376)	(33,533)	(33,485)	(34,606)	3.3%
Underlying EBIT <sup>28</sup>	56,581	58,350	54,806	52,453	(4.3%)
Depreciation and Amortisation	18,362	17,208	17,208	17,712	2.9%
Underlying EBITDA	74,943	75,558	72,014	70,165	(2.6%)
EBITDA %	12.9%	12.3%	11.9%	11.4%	

Source: Tegel management

Tegel's revenue increased between FY16 and FY17 (Adj) by approximately 3.6%. However, revenue growth slowed to 2.0% between FY17 (adj) and FY18. Domestic revenue on a 52 week basis grew by 3.9% in FY18.

NZ poultry revenue and other revenue increased, while export revenue decreased over the FY16 to FY18 period, as shown in Figure 4.8 below.

**Figure 4.8: Revenue movements**



Source: Tegel management accounts

<sup>26</sup> FY16 and FY18 are both 52-week years and to aid comparability Tegel management provided the FY17 view at the group level for 52 weeks.

<sup>27</sup> Financial performance based on Tegel's management accounts. For management reporting purposes non-underlying expenses are recognised after underlying EBITDA.

<sup>28</sup> Amortisation of computer software and other intangibles.

### *FY19 Financial Information*

In response to Bounty's Offer, and in parallel to accelerating the review and reporting of its FY18 results, management has recently prepared and a sub-committee of Independent Directors has reviewed an FY19 earnings range, specifically for the purpose of illustrating potential FY19 EBITDA outcomes in order to facilitate the preparation of this report and the broader Target Company Statement. It should be noted that the FY19 Illustrative EBITDA Range was prepared as at 18 May 2018. For the avoidance of doubt the FY19 Illustrative EBITDA Range does not constitute a forecast and at this early stage of the financial year there are many uncertainties which could materially impact Tegel's FY19 results.

The FY19 Illustrative EBITDA Range is \$65.5 million to \$70.2 million.

The principal assumptions underlying the FY19 Illustrative EBITDA Range include:

- Growth in the domestic poultry market is expected to be approximately 4%, driven by:
  - population growth
  - relative price of poultry to red meat
  - continued increase in poultry's share of plate.
- Tegel's "Simplify" project will continue to generate incremental cost savings throughout the supply chain.
- Production fixed costs will increase in order to enable increased volumes.
- Salary and wage inflation of ~2.5 – 3.0%.
- General cost inflation of ~1.0%.
- Feed costs are anticipated to increase between 6 - 9% in FY19. This increase is due to observed market price increases in key ingredients, including wheat, soya and vitamins. If prices observed in April were to continue throughout FY19, the cost increase would be at the higher end of the range. However, management expect that either prices will decline or Tegel will mitigate by changing mixes to enable lower cost.
- Domestic prices are anticipated to increase in order to pass through some of the feed cost increases to customers.

## 4.5 Financial Position

Table 4.7 summarises Tegel's financial position as at April 2017 and April 2018. The balance sheet as at April 2017 is from Tegel's audited statutory accounts and the balance sheet as at April 2018 is based on draft unaudited statutory accounts.

**Table 4.7: Financial Position (\$ 000)**

	<b>Apr-17 (restated)</b>	<b>Apr-18 (unaudited)</b>
Trade and other receivables	63,258	85,618
Inventories	84,864	92,449
Trade and other payables	(66,600)	(89,329)
Net tax payable	(3,113)	(8,356)
<b>Net working capital (excl. financing)</b>	<b>78,409</b>	<b>80,382</b>
Biological Assets	32,872	35,054
Property, plant and equipment	163,663	179,154
Intangible Assets	342,988	347,298
Other non-current assets	329	0
Deferred Tax Liabilities	(29,216)	(25,433)
<b>Net operating assets</b>	<b>510,639</b>	<b>536,073</b>
Cash and cash equivalents	13,406	(15,787)
Bank borrowings	(120,000)	(120,000)
Derivative Financial Instruments	(343)	2,240
<b>Net cash/(debt)</b>	<b>(106,937)</b>	<b>(133,547)</b>
<b>Net assets</b>	<b>482,111</b>	<b>482,908</b>

Source: Tegel Annual Report, Tegel draft statutory accounts

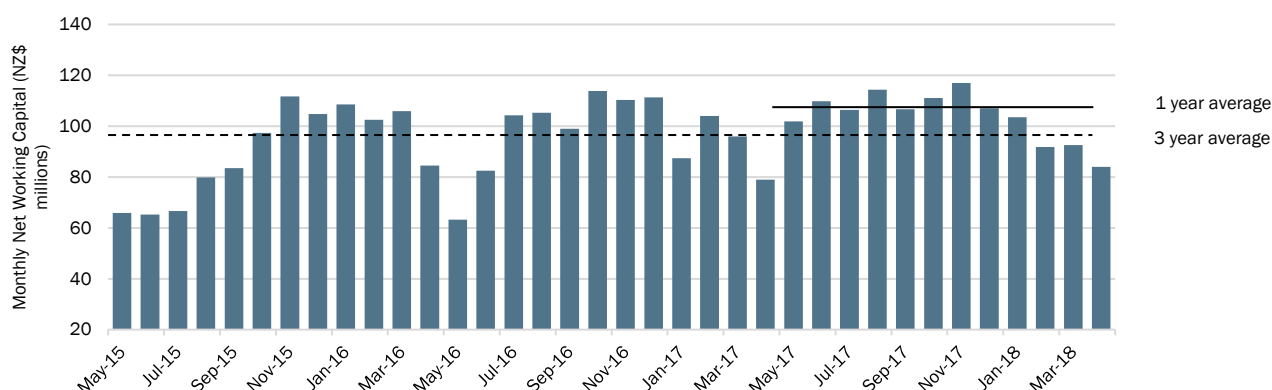
Key points which should be considered when reviewing the balance sheet include:

- Tegel has a significant net working capital balance, with trade and other receivables and inventory only partly offset by accounts payable and other payables. Net working capital exhibits some seasonality and can fluctuate due to timing of sea shipments. Based on management accounts<sup>29</sup>, net working capital averaged \$96 million over the last three years, with a decrease in April/May of each year which broadly corresponds to Tegel's year end. The average net working capital was \$104 million for FY18. However, in future years less seasonality is expected to be observed in working capital balances due to feed shipments being spaced throughout the year and balances at April 2018 including significant feed stock.

<sup>29</sup> We note that as part of the year-end process reclassifications are made between the management accounts and the reported statutory accounts which are standard processes carried out each year. These related to spare parts classified as inventory, settlement discounts classified as a reduction in trade receivables, and software assets classified as intangibles. There were no changes to cash or debt balances.



Figure 4.9: Net Working Capital



- Trade and other receivables have increased by \$22 million between April 2017 and April 2018, with a partially offsetting \$23 million increase in trade and other payables. We understand from Tegel management that this change is due to the timing of year ends (in relation to monthly payment cycles which impacted both receivables and payables).
- Tegel's overdue debtor balances as at April 2018 are largely unchanged from historical levels, with no major exposures. Tegel's major customers are large supermarket chains and global QSRs.
- Property, plant and equipment includes Tegel owned feed-mills, hatcheries and leasehold improvements at the three leased processing plants. Tegel increased its capital expenditure on upgrades at the processing plants and other asset purchases related to grower farms.
- Intangible assets relate to goodwill, customer contracts, trademarks and software which are subject to regular impairment testing by Tegel's auditors.
- As at April 2018, Tegel had \$134 million of net debt (including derivatives and cash) which is an increase from April 2017. This is largely due to capital expenditure and increased working capital requirements.

## 4.6 Cash Flow

### 4.6.1 Capex

Table 4.8 shows Tegel's historical capital expenditure and depreciation over the FY16 to FY18 period.

Table 4.8: Capital expenditure and depreciation (\$ '000)

	FY16	FY17	FY18
	Actual	Actual	Actual
Maintenance Capex	9,229	10,500	10,714
Growth Capex	17,071	19,423	28,990
<b>Total Capex</b>	<b>26,300</b>	<b>29,923</b>	<b>39,704</b>
Depreciation and amortisation	16,086	17,209	17,714
<b>Capex as proportion of depreciation and amortisation</b>	<b>163%</b>	<b>174%</b>	<b>224%</b>

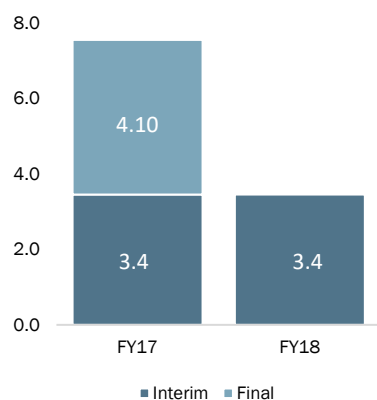
Source: Tegel management

Tegel invested growth capital of between \$17 million and \$29 million over the FY16 to FY18 period. Tegel management say that it follows a rigorous business case process. Growth capital typically targets a payback period of three years or less. Recent capital investments have included additional automation (mainly automated deboning and auto-cut machines) in the New Plymouth, Auckland, and Christchurch plants (aimed at cost reduction), acquisition of land adjacent to the New Plymouth feedmill and investment in breeder and grower farms in the Christchurch and Waikato region (to expand capacity).

### 4.6.2 Dividends

Tegel's dividend policy guidance is a payout in a range of 60% to 75% of NPAT (excluding the expense relating to the non-cash amortisation of customer contracts). Tegel has only been a listed company since May 2016 and as such capital distributions in prior periods are not comparable. Tegel's dividend payments for FY17 and FY18 are shown below in Figure 4.10:

**Figure 4.10: Tegel dividends (cents per share)**



Source: Tegel management

Tegel paid a total dividend of 7.55 cents per share in FY17, which was composed of an interim dividend of 3.45 cents per share and a final dividend of 4.1 cents per share.

Tegel paid an interim dividend of 3.45 cents in FY18, which is at the same level as FY17. The Offer allows for Tegel to make a final dividend of up to 4.1 cents per share (at the same level as FY17), which would be fully imputed, if paid.

## 4.7 Capital Structure and Ownership

Tegel has 355,906,183 ordinary shares on issue as at 5 June 2018. The top 20 shareholders accounted for 74.9% of the ordinary shares on issue and are set out below.

Shareholder	Investor type	Shares	Percentage
Claris Investments	Private Investor	160,157,782	45.00%
Bounty Holdings	Private Investor	49,669,898	13.96%
Accident Compensation Corp	Fund Manager	9,160,300	2.57%
Credit Suisse Nominees London	Broker	6,086,498	1.71%
Private Clients of Craigs Investment Partners	Broker	5,220,155	1.47%
JCP Investment Partners	Fund Manager	4,675,592	1.31%
Masfen Securities	Broker	4,316,046	1.21%
Private Clients of FNZ Custodians	Broker	4,221,425	1.19%
Private Clients of JBWere Nominees	Broker	3,460,905	0.97%
Brasidas Capital	Fund Manager	2,928,500	0.82%
Mr Eric Francis & Ms Hyun J Barratt	Private Investor	2,700,000	0.76%
Hart Capital Partners	Fund Manager	2,075,451	0.58%
Credit Suisse Nominees Melbourne	Broker	2,000,000	0.56%
Private Clients of Forsyth Barr	Broker	1,961,039	0.55%
Mellon Capital Management	Fund Manager	1,596,067	0.45%
Medical Assurance Society	Fund Manager	1,390,606	0.39%
Sigma Funds Management	Fund Manager	1,332,683	0.37%
Mr Kenneth W Fergus	Private Investor	1,310,000	0.37%
Omega Global Investors	Fund Manager	1,296,000	0.36%
LSV Asset Management	Fund Manager	1,117,200	0.31%
<b>Top 20 shareholders</b>		<b>266,676,147</b>	<b>74.93%</b>
Remaining shareholders		89,230,036	25.07%
<b>Total</b>		<b>355,906,183</b>	<b>100.00%</b>

The major shareholder is Claris Investments, which holds 45% of the ordinary shares on issue.

Bounty's shareholding reported above is based on settled transactions. It does not include agreed share purchases not settled at 5 June 2018.

Other than a high concentration with Claris Investments and Bounty, the Tegel Shares are relatively widely held.

## 4.8 Share Price Performance

Figure 4.11 illustrates the share price and volume for Tegel Shares since May 2016.

**Figure 4.11: Tegel's share price and volume on NZX Main Board**



Source: Capital IQ

Tegel's share price has declined following its listing on 3 May 2016 at \$1.55 per share. The share price has traded broadly within the range of \$0.81 per share and \$1.78 per share. The share price increased briefly following its listing with the announcement in September 2016 that the Company would export raw poultry products to Australia. However, since then the share price has decreased to \$0.82 (prior to the Offer) as Tegel's earnings have been broadly below its IPO forecasts.

**Table 4.10: VWAP and volume as at 24 April 2018**

	Share Price Low	Share Price High	VWAP	Volume (million)	Proportion of Issued Capital
One month	\$0.81	\$0.87	\$0.83	7.7	2.2%
Three months	\$0.81	\$1.15	\$0.98	34.6	9.7%
Twelve months	\$0.81	\$1.45	\$1.15	172.4	48.4%

Source: Capital IQ

Approximately 172 million Tegel shares have traded in the 12 months prior to the Offer, at prices between \$0.81 and \$1.45. Tegel shares have a relatively high level of liquidity on the NZX Main Board. The Offer price of \$1.27 per share (including dividend) represents a:

- premium of 55% to the share price of \$0.82, prior to the Offer
- premium of 52% to the Volume Weighted Average Price (VWAP) of \$0.83 in the one month prior to the Offer
- premium of 30% to the VWAP of \$0.98 in the three months prior to the Offer
- premium of 11% to the VWAP of \$1.15 in the twelve months prior to the Offer.

## 5 Valuation

### 5.1 Approach

There are four methodologies commonly used for valuing businesses:

- Discounted Cash Flow (DCF) analysis
- Capitalisation of earnings
- Estimate of proceeds from an orderly realisation of assets
- Industry rules of thumb.

Each of these valuation methodologies is appropriate in different circumstances. A key factor in determining which methodology is appropriate is the actual practice commonly adopted by purchasers of the type of businesses involved. These valuation methodologies are detailed at Appendix 3.

We have adopted the DCF and capitalisation of earnings approaches to estimate the market value of Tegel.

Any valuation, by its very nature, must attribute a current value that reflects the expected future financial performance of the subject business. Consequently, information regarding the expected future performance, such as financial projections, is vital to the valuation exercise.

For the purposes of informing our Report, Tegel management have prepared an FY19 Illustrative EBITDA Range and have extrapolated this out to FY23 (**Tegel Illustrative Range**) for the purposes of our DCF analysis. The Tegel Illustrative Range is indicative only and specifically prepared for the purpose of illustrating potential outcomes for our Report. For the avoidance of doubt the Tegel Illustrative Range does not represent a detailed forecast and is not disclosed in this Report. The Tegel Illustrative Range is set out as two scenarios, which are discussed below.

### 5.2 Discounted Cash Flow

#### 5.2.1 Key valuation parameters

**Valuation date:** 30 April 2018

**Forecast period:** The DCF valuation is based on the Tegel Illustrative Range which is a five year forecast ending at 30 April 2023. The principal assumptions underpinning the Tegel Illustrative Range are discussed at Section 5.2.2.

**Capital expenditure:** Capital expenditure is forecast to average \$20 million over the five-year forecast period. We have set capital expenditure and depreciation to \$20 million in the terminal year.

**Net Working Capital changes:** The Tegel Illustrative Range allows for net working capital requirements to increase broadly in line with revenue between FY19 and FY23.

**Terminal value assumptions:** Terminal value is calculated by assuming terminal year unlevered free cash flows grow in perpetuity at the terminal growth rate. We have adopted a terminal growth rate of 2.0% per annum. This estimate is broadly supported by industry analysts view that the poultry share of plate growth will have plateaued by FY23<sup>30</sup> (with consumption of other protein substitutes such as dairy and vegetable proteins increasing at a higher rate) and as such future growth will be broadly in line with long run population growth in New Zealand<sup>31</sup> and income growth. We have also been cognisant of the lack of price inflation for poultry products since 2013.

**Feed Cost:** As discussed, Tegel management have assumed feed cost increases between FY18 and FY19 at: (1) 8.9% in the Low Case; and (2) 6.5% in the High Case. These cost increases are based on prices observed as at May 2018. From FY19

<sup>30</sup> OECD FAO Forecasts

<sup>31</sup> Statistics New Zealand Projections, 2016 to 2068, projection is for growth of 0.8% per annum over this period

onwards, feed costs are assumed to remain flat. Tegel management consider there are further efficiencies in feed conversion and potential optimisation in formulation of feed that can offset potential future commodity price increases.

**Domestic Price Inflation:** Tegel management have assumed that Tegel can increase its prices between FY18 and FY20 in order to potentially pass through some of the feed cost increases. Tegel has then assumed further modest price inflation between FY21 and FY22.

**Volume Growth:** Tegel management have assumed volume growth of 4% per annum between FY19 and FY23 in the domestic market, with growth in international markets adjusted for known volumes changes.

**Weighted Average Cost of Capital:** We have estimated Tegel's post-tax, nominal Weighted Average Cost of Capital (WACC) at between 9.1% and 9.5%. We have applied this WACC to New Zealand Dollar denominated cashflows. We have set out our calculation of WACC in Appendix 5.

### 5.2.2 The Tegel Illustrative Range

The anticipated increase in revenue is underpinned by two key assumptions, namely an increase in volume of 4% per annum in the domestic market (Low Case and High Case) and a recovery in price in both cases from partially passing on feed cost increase, and some relatively minor further price inflation between FY21 and FY22. The High Case assumes slightly higher price increases.

Profitability in the Low Case and High Case is driven by the different scenarios for feed cost increases and the assumed level of price pass-through to customers.

Poultry sale prices are anticipated to increase largely due to a partial pass-through of increased feed costs and an improvement in product mix. This price increase is yet to be agreed with customers and we note that between 2015 and 2018 poultry prices have decreased.

### 5.2.3 DCF Valuation Summary

Our DCF valuation of Tegel, as summarised at Table 5.1, results in a valuation range of \$1.15 to \$1.47 per share, with a mid-point of \$1.31 per share.

**Table 5.1: Summary of DCF valuation (\$ 000)**

	Low	High
Enterprise Value	544,181	657,272
Cash/(Net Debt)	(133,547)	(133,547)
<b>Equity value</b>	<b>410,634</b>	<b>523,725</b>
Shares on issue (thousand)	355,906	355,906
<b>Value per share</b>	<b>\$1.15</b>	<b>\$1.47</b>

Source: Management accounts, KordaMentha analysis

Our DCF valuation relies on the Tegel Illustrative Range with adjustments set out in Table 5.2:

**Table 5.2: DCF Scenarios**

Scenario	Description	Notes
Low	<ul style="list-style-type: none"> <li>We have adopted the Low Case as set out by Tegel management but further adjusted domestic volume growth down to 2.5% per annum</li> <li>We have adopted a WACC of 9.5% (top end of our range)</li> </ul>	We consider there is a risk that poultry's share of plate has plateaued in New Zealand and as such the drivers of poultry consumption growth in New Zealand may be limited to (1) population growth and (2) income growth.
High	<ul style="list-style-type: none"> <li>We have adopted the mid-point of the Low and High Case set out by Tegel management</li> </ul>	We consider the mid-point of the Tegel Illustrative Range as an appropriate high end of the range. It assumes a price increase in

	(with domestic volume growth at 4% per annum) • We have adopted a WACC of 9.1% (bottom end of our range)	tandem with volume growth, although we note that price increases have not always held or been achieved incrementally in Tegel's recent past.
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Source: KordaMentha Analysis

We consider there is material risk to value around the ability to pass on price increases to customers. These price increases are not certain to be achieved or, if they are achieved, there may be an offsetting impact on volumes. For illustrative purposes, and to help further inform our valuation range, we have also modelled a scenario where the anticipated uplift in prices is not achieved. We are comfortable that our assessed low end of the range is above the value produced under this scenario. On balance, we consider it more likely than not that Tegel will be able to pass on some of its feed cost increases. However, the uncertainty is around the quantum that can be passed on.

Tegel management has identified a number of potential acquisitions which, if approved and completed, would grow revenue and earnings over the period to FY23, and that these acquisitions may create synergies with Tegel's existing operations. Tegel projects that acquisitions could add an incremental \$3.5 million of EBITDA in FY19, increasing to \$10.4 million in FY23. This has an incremental valuation impact of 21 cents per share and represents potential upside to our assessed standalone valuation range. In our view, at the current time, a prospective purchaser of Tegel is unlikely to ascribe significant value that may accrue from these potential acquisitions, due to uncertainty in: (1) Tegel being the successful acquirer of the target, (2) the quantum of the synergies; and (3) the execution risk in achieving these synergies.

#### 5.2.4 Performance Rights

Tegel operates a Long Term Incentive Plan (LTIP), which has been offered to certain employees. To date, two grants have been made on:

- 17 May 2016 (FY17 Performance Rights)
- 1 July 2017 (FY18 Performance Rights).

Key features of the LTIP include:

- On vesting, employees receive Tegel Shares for nil consideration.
- In order for Tegel Shares to vest, certain conditions must be met, including:
  - Employees must remain employed by Tegel
  - Certain performance hurdles are met.

Under the Offer, Bounty is proposing to acquire the Performance Rights for 4.3 cents per FY17 Performance Right and 26 cents per FY18 Performance Right. This equates to total consideration of approximately \$350,000.

Northington Partners has prepared a Rule 22 report, under the Takeovers Code, to opine on whether the prices are fair and reasonable in comparison to the amount offered for Tegel Shares.

Our Report does not replicate the Rule 22 Report. However, for the purposes of this Report we note:

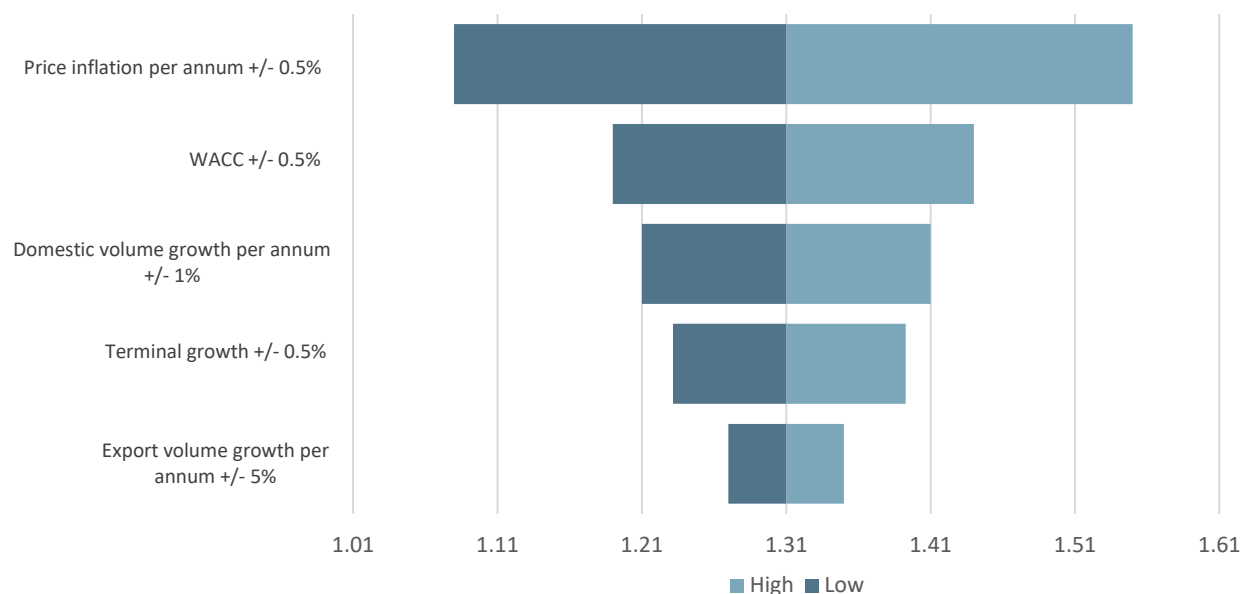
- Tegel has had an independent valuation of the performance rights undertaken, which arrives at higher valuations of 25 cents per FY17 Performance Right and 68 cents per FY18 Performance Right. Key differences to the Northington report include:
  - Use of Monte Carlo simulation instead of the Black Scholes option pricing methodology.
  - The estimate of volatility adopted.
- No matter which valuation is adopted, the value of the performance rights granted to management is immaterial in the context of our valuation of Tegel Shares and we have not made a deduction to our assessed Enterprise Value to allow for dilution to existing shareholders.



### 5.2.5 Sensitivity Analysis

Figure 5.1 shows that relatively small changes in key assumptions can have a material impact on the results of the DCF valuation. This is a result of the relatively high operating leverage of Tegel - with high levels of revenue and cost - as well as a significant portion of value generated from long-term assumptions which drive terminal value. The DCF valuation is particularly sensitive to assumptions around price where a change in the trajectory (for FY19 and through to the terminal period) of +/- 0.5% per annum in domestic prices results in a change in value from \$1.31 (mid-point) to a range of \$1.08 to \$1.55 per Tegel Share, particularly given the relatively narrow price inflation per annum assumed through to FY23.<sup>32</sup>

**Figure 5.1: Sensitivity Analysis**



## 5.3 Capitalisation of Earnings

### 5.3.1 Earnings Multiple

To undertake a capitalisation of earnings valuation, it is necessary to determine an appropriate earnings multiple, which is then applied to an estimate of earnings.

Comparable earnings multiples are generally derived by benchmarking the entity being valued against the sale and purchase of shares in comparable companies. Transaction evidence is typically sourced from:

- Earnings multiples based on the current share price of comparable listed companies.
- Earnings multiples based upon recent acquisitions of comparable companies.

Observed trading multiples need to be adjusted for factors such as relative size, growth, profitability and risk. Also, observed transactions for listed entities are generally for small parcels of shares, and therefore typically exclude a premium for control that normally applies to a 100% shareholding.

#### Comparable acquisition multiples

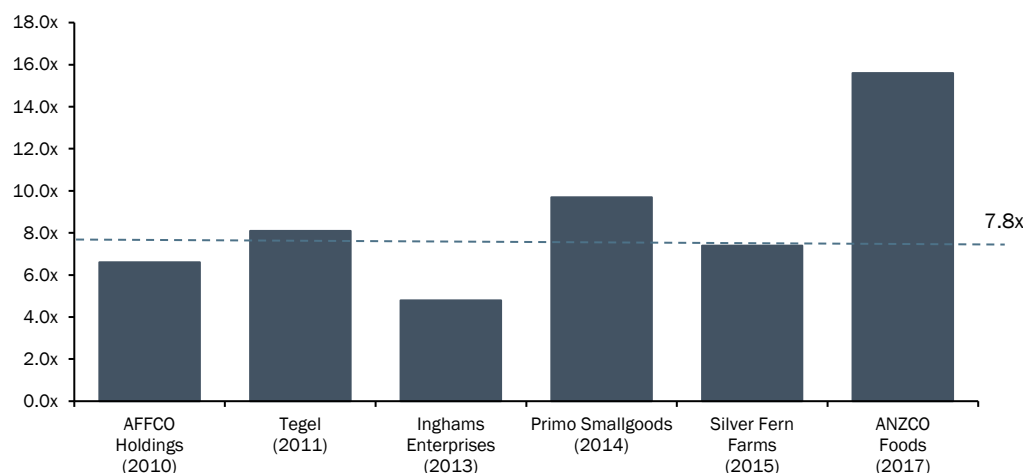
Figure 5.2 illustrates the earnings multiples implied by transactions of comparable animal protein producers since 2011 (a description of the transactions is set out in Appendix 4). These transactions have been selected based on the following criteria:

- The products provided by the comparable company are broadly similar to Tegel and can be thought of as substitutes for poultry protein products (e.g. beef, lamb, seafood manufacturers).

<sup>32</sup> This sensitivity is based on prices increasing or decreasing by 1% per annum on a compound basis as opposed to a one off increase or decrease of 1%.

- The comparable company is based in either Australia or New Zealand. However, we note red meat producers (AFFCO, ANZCO, Silver Fern Farms) generate the majority of their revenue in international markets.
- The comparable company has an enterprise value above \$100 million.
- The acquirer gained control of the comparable company on completion of the transaction.

Figure 5.2: Acquisitions of protein producing companies – EBITDA multiples<sup>33</sup>



Source: Capital IQ and KordaMentha estimates

The following factors are relevant when considering acquisition multiples:

- Acquisition multiples typically include a premium for control, which may reflect expected synergies, as well as the prevailing economic environment and other non-quantifiable factors.
- The acquisition multiples shown in Figure 5.2 are historical multiples, based on the companies' earnings in the most recently available 12 months prior to the transaction, with some of the earnings having been normalised by the companies involved in the transactions. However, many of the transactions listed above involve unlisted companies and as such the level of public information is limited. Typically, assuming business earnings are increasing, forecast earnings multiples are lower than historical earnings multiples.
- The comparable transactions have earnings multiples in a wide range between 4.8x to 15.6x EBITDA; with an overall median of 7.8x EBITDA. The ANZCO transaction is at the high-end of the range and appears to have been skewed by the low level of earnings relative to assets acquired (as discussed in Appendix 4), removing that outlier the range is 4.8x to 9.7x EBITDA.
- Inghams, Tegel's main competitor in Australasia, is also directly comparable and was acquired for a relatively low multiple of 4.8x historical EBITDA in 2013. Although it is difficult to determine why the EBITDA multiple was so low from public information it appears to be related to issues specific to that deal. Given Inghams now trades at a multiple of 7.8x, we have not placed much reliance on the 2013 transaction.
- We consider Affinity's acquisition by Tegel in January 2011, at a multiple of 8.1x, is the most comparable transaction, because Tegel operated in broadly the same markets with similar products back in 2011.

#### Comparable trading multiples

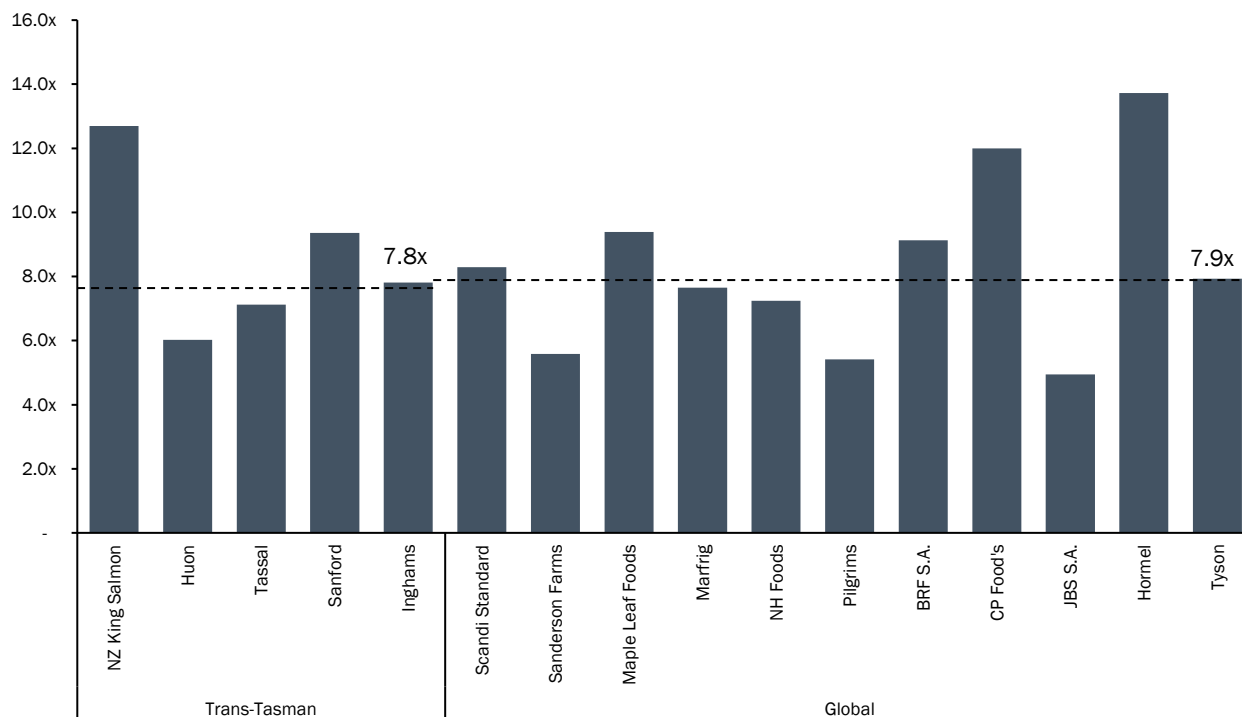
We have selected comparable listed companies based on the following criteria:

- **Industry:** We have selected companies that engage in the production and processing of animal proteins.
- **Geography:** We have selected global poultry and/or animal protein producing companies. While operating in different markets and generally being significantly larger than Tegel, global companies are also likely to be impacted by similar macro-economic trends such as the growing demand for protein and the impact of feed costs.
- **Size:** Listed companies with an enterprise value above \$100 million have been selected.

<sup>33</sup> Companies ordered by increasing EBITDA, converted to New Zealand dollars using exchange rates from the time of the transactions.

Figure 5.3 illustrates the forecast earnings multiples, based on earnings for the respective companies in the 2018 financial year. We have set out our analysis in more detail in Appendix 4. We have divided the companies into two subsets: (1) Trans-Tasman companies; and (2) global companies.

**Figure 5.3: Listed protein producing companies – EBITDA multiples based on FY18<sup>34</sup>**



Source: Capital IQ and the companies' financial accounts

There are a number of fundamental differences between Tegel's operations and those of the listed comparable companies, as summarised below in Table 5.3:

**Table 5.3: Differences between Tegel and comparable companies**

Difference	Description	Tegel relative to comparable companies
Type of protein	<ul style="list-style-type: none"> <li>Sanford, NZ King Salmon, Tassal and Huon are focussed on seafood</li> <li>The global companies are diversified producers of animal proteins</li> </ul>	<ul style="list-style-type: none"> <li>Seafood manufacturers tend to exhibit greater capital intensity, margins and export growth prospects than poultry producers</li> </ul>
Geography and markets	<ul style="list-style-type: none"> <li>The global companies are exposed to a wider range of consumer markets than Tegel and as such will have different earnings drivers</li> </ul>	<ul style="list-style-type: none"> <li>Global companies, such as JBS and Marfrig, often have a greater presence in developing countries, which have higher growth rates in protein consumption</li> <li>Poultry production in New Zealand has some comparative advantages over Australia, including being free of avian flu and relatively low manufacturing wages</li> </ul>
Production facilities	<ul style="list-style-type: none"> <li>Tegel has incurred capital expenditure between FY16 to FY18, above its long run average, to upgrade facilities</li> </ul>	<ul style="list-style-type: none"> <li>Tegel's recent upgrades mean that it is likely to have newer facilities and greater spare capacity than many of its peers</li> </ul>

<sup>34</sup> Companies ordered by increasing EBITDA, converted to New Zealand dollars using current exchange rates.

Market Position	<ul style="list-style-type: none"> <li>Tegel has a strong domestic market position. Albeit, there is strong competition due to spare capacity in the industry</li> </ul>	<ul style="list-style-type: none"> <li>Other comparable companies may have exposure to markets with less competition and more ability to pass on increases in feed costs</li> </ul>
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Source: Capital IQ and Broker Notes

#### Selection of earnings multiple range

We have assessed an earnings multiple range to apply to Tegel's normalised EBITDA between:

- 8.0x EBITDA, which is based on the median for comparable transactions at 7.9x historical EBITDA.
- 9.0x EBITDA, which is based on the median for listed global and Trans-Tasman producers of animal proteins at 7.9x FY18 EBITDA, plus an allowance for a control premium. Observed transactions for listed entities are generally for small parcels of shares and therefore typically exclude a premium for control that would normally apply to a 100% shareholding.

In addition, we note that:

- The Tegel acquisition in 2011 was at a 8.1x historical EBITDA multiple and equity markets have increased since 2011, resulting in some multiple expansion.
- Tegel has a comparative advantage in poultry manufacturing, due to New Zealand being one of the few countries that has not had one of the major strains of avian flu.
- Tegel's production facilities are relatively new and have spare capacity.

### 5.3.2 Normalised Earnings

We have assessed normalised EBITDA for Tegel, for valuation purposes, in a range between \$65 million and \$70 million, with a mid-point of \$67.5 million.

The assumptions underpinning the normalised earnings assessment are set out below:

**Table 5.4: Normalised EBITDA**

EBITDA	Description
Low of \$65 million	<ul style="list-style-type: none"> <li>The Tegel Illustrative Range for FY19 is set out as a range of \$65 million to \$70 million and takes into account trading conditions as at May 2018. \$65 million represents the low end of the Tegel Illustrative Range.</li> </ul>
High of \$70 million	<ul style="list-style-type: none"> <li>The average of Tegel's underlying EBITDA between FY16 and FY18 was \$72 million.</li> <li>The actual underlying FY18 EBITDA result was \$70 million.</li> <li>The high end of the range of the Tegel Illustrative Range for FY19 is \$70 million.</li> </ul>

Source: Capital IQ and Broker Notes

### 5.3.3 Summary of Capitalisation of Earnings valuation

Our capitalisation of earnings valuation of Tegel results in a valuation range of \$1.09 to \$1.39 per Tegel Share, with a mid-point of \$1.27 per share. This compares to the Effective Offer Price of \$1.27 per Tegel Share (including the 4.1 cent dividend per share).

The capitalisation of earnings calculation is set out in Table 5.5:

**Table 5.5: Capitalisation of earnings valuation (\$ 000)**

	Low	High
<b>Normalised EBITDA</b>	<b>65,000</b>	<b>70,000</b>
Multiple	8.0x	9.0x
<b>Enterprise Value</b>	<b>520,000</b>	<b>630,000</b>
Cash / Net Debt	(133,547)	(133,547)
<b>Equity Value</b>	<b>386,453</b>	<b>496,453</b>
Shares on issue (thousand)	355,906	355,906
<b>Value per Share (\$)</b>	<b>1.09</b>	<b>1.39</b>

Source: Management accounts, KordaMentha analysis

## 5.4 Synergies

Although we have made enquiries of Bounty, its management have declined to engage with us regarding the potential for synergies between the Tegel and Bounty businesses.

Bounty has made public some of its intentions, should it control Tegel, which include:

- Leveraging its existing sales channels and distribution networks to promote Tegel's products in the Philippines and Indonesia, initially, and subsequently to other markets in South East Asia.
- Establishing Tegel as a centre of excellence and innovation within the Bounty Fresh group.

Without engagement with Bounty, we have been unable to determine the extent that synergies which may be extracted by Bounty might exceed the typical level of synergies inherent in our standalone valuation, via the inclusion of a control premium.

We have considered potential cost savings to Tegel being delisted should Bounty acquire a 90% shareholding in Tegel and look to enact its compulsory acquisition rights.

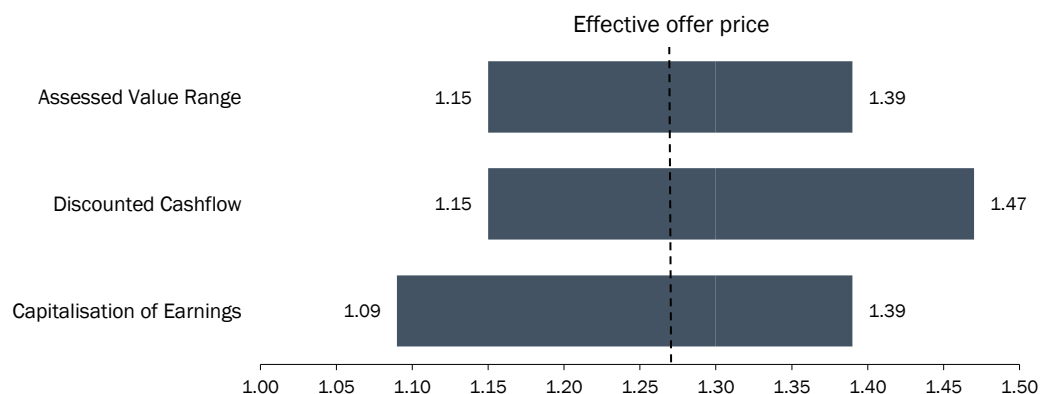
Tegel management have provided us with information that shows the compliance costs of being dual-listed on both the NZX and ASX are between \$2 million and \$3 million per annum. If Bounty were to delist Tegel from both the NZX and ASX then this compliance cost would be avoided. We have estimated the net present value of avoiding these compliance costs at approximately 7 cents per share. However, while this represents potential upside to the price that Bounty could pay for Tegel, we have not incorporated this in our standalone valuation assessment for the following reasons:

- Achieving the synergies depends on Bounty reaching a shareholding of at least 90%.
- We have already allowed for a control premium in our standalone valuation, which could be reasonably expected to include the typical synergies available to acquirers, such as removing listing costs.
- Determining a fair allocation of any synergy value to the existing shareholders should relate to the degree to which the benefits can be replicated by other potential bidders and the level of competitive tension that can be created to extract value for those synergies. In general, we consider that the higher the level of benefits that can be provided by a range of alternative bidders, the higher the proportion of value enhancement that would typically be shared with the existing shareholders in the target company. Given Bounty will own or control in excess of 50% of Tegel's shares, an alternative bidder cannot control Tegel without Bounty reducing its stake and as such, in our opinion, there is limited pressure for Bounty to pay more for synergies, beyond that inherent in a typical control premium.

## 5.5 Valuation Summary

After taking into account the results of our DCF valuation and capitalisation of earnings valuation approaches, we have assessed a valuation range for 100% of Tegel's equity, on a standalone basis, between \$1.15 and \$1.39 per Tegel Share, with a mid-point of \$1.27.

Figure 5.4: Valuation Summary for standalone Tegel



Source: KordaMentha analysis

The Effective Offer Price sits within our assessed valuation range for Tegel's shares. The mid-point of our valuation matches the Effective Offer Price of \$1.27 per share (including the 4.1 cent dividend per share).

## Appendix 1: Sources of Information

### Documents relied upon

Key information which was used and relied upon, without independent verification, in preparing this report includes the following:

- Tegel Product Disclosure Statement 2016
- Tegel Annual Reports
- Tegel Management Accounts
- Tegel's share register and trading information
- Broker reports prepared by Goldman Sachs, Credit Suisse, Deutsche Bank, Forsyth Barr and First NZ Capital
- Ibis World Poultry Processors Industry Report for New Zealand, May 2017
- OECD FAO Database and Agricultural Outlook Report 2017 to 2026
- Data sourced from the Statistics New Zealand's website (stats.govt.nz)

We have also had discussions with Tegel's management in relation to the nature of Tegel's business operations (including the FY19 Illustrative EBITDA Range), and the known risks and opportunities for the foreseeable future.

### Reliance upon information

In forming our opinion, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Tegel and its advisers. We have no reason to believe any material facts have been withheld.

We have evaluated that information through analysis, enquiry and examination for the purposes of forming our opinion but we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audited the accounting or other records of Tegel. We do not warrant that our enquiries would reveal any matter that an audit, due diligence review or extensive examination might disclose.



## Appendix 2: Qualifications and declarations

### Qualifications

KordaMentha is an independent New Zealand Chartered Accounting practice, internationally affiliated with the KordaMentha group. The firm has established its name nationally through its provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because it has no business advisory, audit or tax divisions, avoids any potential conflicts of interest which may otherwise arise. This places the firm in a position to act as an independent adviser and prepare independent reports.

The persons responsible for preparing and issuing this report are Grant Graham (BCom, CA); Shane Bongard (BCom (Hons)); and Suresh Yahanpath (MAppFin, BCom, BSc). All have extensive experience in providing corporate finance advice on mergers, acquisitions and divestments, advising on the value of shares and undertaking financial investigations.

### Disclaimers

As far as permitted by law:

- It is not intended that this report should be used or relied upon for any purpose other than as an expression of KordaMentha's opinion as to merits of the proposed transaction. KordaMentha expressly disclaims any liability to any Tegel equity security holder that relies or purports to rely on the Report for any other purpose and to any other party who relies or purports to rely on the Report for any purpose.
- This report has been prepared by KordaMentha with care and diligence and the statements and opinions given by KordaMentha in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by KordaMentha or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve KordaMentha from liability arising from an opinion expressed recklessly or in bad faith.

### Indemnity

Tegel has agreed that, to the extent permitted by law, it will indemnify KordaMentha and its partners, employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity does not apply in respect of any negligence, misconduct or breach of law. Tegel has also agreed to indemnify KordaMentha and its partners, employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except where KordaMentha or its partners, employees and officers are guilty of negligence, misconduct or breach of law in which case KordaMentha shall reimburse such costs.

### Independence

KordaMentha does not have at the date of this report, and has not had, any shareholding in, or other relationship, or conflict of interest with Tegel that could affect its ability to provide an unbiased opinion in relation to this transaction. KordaMentha will receive a fee for the preparation of this report. This fee is not contingent on the success or implementation of the proposed transaction or any transaction complementary to it. KordaMentha has no direct or indirect pecuniary interest or other interest in this transaction. We note for completeness that a draft of this report was provided to Tegel and its advisers, solely for the purpose of verifying the factual matters contained in the Report. While minor changes were made to the drafting, no material alteration to any part of the substance of this report, including the methodology or conclusions, were made as a result of issuing the draft.

### Consent

KordaMentha consents to the issuing of this report, in the form and context in which it is included, in the information to be sent to Tegel shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without the prior written consent of KordaMentha as to the form and context in which it appears.



## Appendix 3: Valuation Methodologies

There are four methodologies commonly used for valuing businesses:

- Discounted Cash Flow (**DCF**) analysis;
- Capitalisation of earnings;
- Estimate of proceeds from an orderly realisation of assets; and
- Industry rules of thumb.

Each of these valuation methodologies is appropriate in different circumstances. A key factor in determining which methodology is appropriate is the actual practice commonly adopted by purchasers of the type of businesses involved.

### Discounted cash flow

It is a fundamental principle that the value of an asset or business is represented by its expected future cash flows, discounted to present value at a rate which reflects the risk inherent in those cash flows. This approach, referred to as the DCF methodology, is particularly suited to situations where a business is in a growth phase or requires significant additional investment to achieve its projected earnings.

The DCF methodology requires considerable judgement in estimating future cash flows and the valuer generally places significant reliance on medium to long term projections prepared by management. The DCF valuation methodology can also be very sensitive to changes in underlying assumptions. Notwithstanding these limitations, DCF valuations are appropriate where current earnings are not representative of reasonable expectations of future earnings.

### Capitalisation of earnings

The capitalisation of earnings methodology requires an assessment of the maintainable earnings of the business and the selection of an appropriate capitalisation rate, or earnings multiple. This methodology is most appropriate where there is a long history of relatively stable returns and capital expenditure requirements are neither large nor irregular. In practice, it is often difficult to obtain accurate forecasts of future cash flows and therefore the capitalisation of earnings methodology is often used as a surrogate for the DCF methodology.

### Realisation of assets

The realisation of assets approach is based on an estimate of the proceeds from an orderly sale of assets. This methodology is more commonly applied to businesses that are not going concerns. The valuation result reflects liquidation values and typically attributes no value to any goodwill associated with on-going trading.

### Industry rules of thumb

In some industries, businesses are valued using well established 'rules of thumb'. Generally these rules of thumb are used as a cross-check for other valuation methodologies.



## Appendix 4: Valuation Evidence

### Comparable Transactions

Table A4.1 shows EBITDA and EBIT multiples for completed transactions of Trans-Tasman protein companies.

**Table A4.1: Comparable company transactions<sup>35</sup>**

Date	Target	Acquirer	Primary Target Location	Enterprise Value NZD millions	Historical EBITDA multiple	Historical EBIT multiple
Dec 17	ANZCO Foods	Itoham Foods	New Zealand	566	15.4x	20.9x
Sep 15	Silver Fern Farms <sup>36</sup>	Shanghai Mailing	New Zealand	503	7.4x	12.8x
Nov 14	Primo Smallgoods	JBS	Australia	1,610	9.7x	n/a
Mar 13	Inghams Enterprises	TPG Capital	Australia	1,000	4.8x	n/a
Jan 11	Tegel	Affinity	New Zealand	484	8.1x	n/a
Jul 10	AFFCO Holdings	Talley's Group	New Zealand	267	6.6x	10.0x
<b>Median</b>					<b>7.8x</b>	<b>12.8x</b>

Source: Capital IQ, financial statements and announcements, research reports and KordaMentha estimates

#### ANZCO – Itoham Foods

Itoham Foods acquired the final 35% of ANZCO Foods in December 2017. ANZCO Foods primarily procures, processes and markets beef and lamb in New Zealand and internationally. ANZCO Foods' operations are much more capital intensive than Tegel's operations. Based on publicly available information, it appears that ANZCO was acquired based on the book value of its net tangible assets, rather than value ascribed based on its earnings. This makes the earnings multiple less comparable to Tegel.

#### Silver Fern Farms – Shanghai Mailing

Silver Fern Farms received \$261 million in equity funding from new investor Shanghai Maling in September 2015. Pursuant to the transaction, the Shanghai Maling acquired a 50% share in the company. Silver Fern Farms processes, markets, and exports lamb, beef, venison and associated products in New Zealand and internationally.

#### Primo Smallgoods – JBS

JBS Australia acquired Primo Group in late 2014. Primo Group is the largest ham, bacon and small meat products producer in Australia and New Zealand.

#### Inghams Enterprises – TPG Capital

TPG Capital acquired Inghams Enterprises Pty Limited in March 2013. Inghams was founded in 1918 and produces and sells poultry products in Australia and New Zealand. TPG acquired Inghams for a 4.8x trailing EBITDA in what was a subdued period for market buy-out activity.

#### Tegel – Affinity

Affinity Equity Partners acquired Tegel from Pacific Equity Partners and other entities in January 2011.

<sup>35</sup> Historical earnings estimates are in most cases based on the last 12 months of available data. Transaction multiples exclude synergies.

<sup>36</sup> Silver Fern Farm has a financial year ended 30 September. The transaction occurred in September 2015. Had the earnings multiples been calculated based on its financial performance, forecast for the year ended 30 September 2015 (which was largely known) then the resulting earnings multiples would have been 5.2x EBITDA and 7.3x EBIT.

## AFFCO Holdings – Talley's Group

Talleys Group Limited acquired the remaining 47% in AFFCO Holdings Ltd in June 2010. AFFCO Holdings manufactures and distributes meat products, including chilled and frozen beef, lamb, mutton, goat and pork cuts.

## Comparable Companies

Table A4.2 shows earnings multiples for publicly listed companies that specialise in the production and processing of protein foods such as salmon, poultry, turkey, beef, lamb and pork. In the table there are a variety of companies that operate across multiple geographies and proteins. The Trans-Tasman companies are generally of a comparable size to Tegel, whilst the global companies tend to be much larger. Most of the diversified companies produce poultry and other meat products (e.g. beef and pork). The comparable companies are described over the following pages.

**Table A4.2: Comparable protein companies**

Company	Country	Primary product	Enterprise Value (NZ\$ millions)	Annual revenue growth <sup>37</sup>	EBITDA margin	EBITDA Multiples <sup>38</sup>		EBIT Multiples	
						FY18	FY19	FY18	FY19
Trans-Tasman Companies:									
Inghams	Australia	Poultry	1,783	2%	9%	7.8x	7.3x	10.0x	9.4x
Sanford	NZ	Seafood	911	6%	18%	9.4x	8.8x	11.8x	11.1x
Tassal	Australia	Salmon	808	19%	21%	7.1x	6.4x	9.4x	8.4x
Huon	Australia	Salmon	510	20%	24%	6.0x	5.5x	8.8x	8.1x
NZ King Salmon	NZ	Salmon	328	17%	16%	12.7x	11.5x	16.0x	14.8x
Trans-Tasman Median				17%	18%	7.8x	7.3x	10.0x	9.4x
Global Companies:									
Tyson Foods	USA	Diversified	49,485	0%	11%	7.9x	7.8x	9.9x	9.7x
Hormel	USA	Diversified	28,086	2%	14%	13.7x	12.7x	15.3x	14.3x
JBS S.A.	Brazil	Diversified	27,962	1%	8%	4.9x	4.7x	7.5x	6.9x
CP Foods	Thailand	Diversified	23,066	8%	7%	12.0x	9.9x	27.9x	20.1x
BRF S.A.	Brazil	Diversified	14,097	4%	11%	9.1x	7.5x	18.5x	13.1x
Pilgrim’s Pride	USA	Poultry	10,675	8%	12%	5.4x	5.3x	6.8x	6.7x
NH Foods	Japan	Diversified	7,456	1%	6%	7.2x	6.9x	10.1x	9.6x
Marfrig	Brazil	Diversified	5,619	5%	8%	7.6x	6.2x	10.0x	9.2x
Maple Leaf Foods	Canada	Diversified	4,092	3%	11%	9.4x	8.5x	14.3x	12.5x
Sanderson Farms	USA	Poultry	3,156	7%	11%	5.6x	5.8x	7.3x	7.5x
Scandi Standard	Sweden	Poultry	960	18%	8%	8.3x	7.3x	14.4x	11.7x
International Median				3%	11%	7.9x	7.3x	10.1x	9.7x
Poultry Focused Median				8%	10%	6.7x	6.5x	8.7x	8.4x

Source: Capital IQ, financial statements and announcements and research reports. FY18 and FY19 are for the respective companies' financial years. The earnings multiples are generally based on consensus earnings estimates.

<sup>37</sup> Compound annual growth rate measured between FY15 and FY18 (forecast).

<sup>38</sup> Multiples exclude investment assets.

## Inghams

Inghams Group Limited produces and sells poultry in Australia and New Zealand. It is involved in the production and sale of chicken and turkey products; and stock feed for use by the poultry, pig, dairy, and equine industries. Inghams was founded in 1918 and is based in North Ryde, Australia.

## Sanford

Sanford Limited engages in farming, harvesting, processing, storing, and marketing seafood products. It operates through Wildcatch and Aquaculture segments. The company catches and processes inshore and deep-water fish species, as well as farms, harvests and processes mussels, oyster and salmon. Sanford was founded in 1881 and is headquartered in Auckland, New Zealand.

## Tassal

Tassal Group Limited hatches, farms, processes, markets, and sells Atlantic salmon in Australia. The majority of Tassal's products are sold in Australia, with some exported. Tassal offers salmon products in fresh, smoked, canned, and frozen categories. Tassal was founded in 1986 and is headquartered in Hobart, Australia.

## Huon

Huon Aquaculture Group Limited hatches, farms, processes, markets, and sells Atlantic salmon and ocean trout. The majority of Huon's product is sold in Australia, with some exported. The Company was founded in 1986 and is headquartered in Dover, Australia. The Huon Group is a subsidiary of Surveyors Investments Pty Ltd.

## NZ King Salmon

New Zealand King Salmon Investments Limited produces, sells, and exports the King salmon species products worldwide. It offers whole fish; pre-cut fillets and portions; wood roasted and cold smoked products; and pet food products, as well as by-products, such as guts, heads, trim, skin, bones, tails, and frames. New Zealand King Salmon Investments Limited sells its products to Retail and Foodservice channels and via wholesalers. The Company was incorporated in 2008 and is headquartered in Nelson, New Zealand.

## Tyson Foods

Tyson Foods, Inc. is a global food company that operates through four segments: Chicken, Beef, Pork, and Prepared Foods. The company raises and processes chickens into fresh, frozen and value-added chicken products; processes live fed cattle and live market hogs. The Company was founded in 1935 and is headquartered in Springdale, Arkansas.

## Hormel

Hormel Foods Corporation produces and markets various meat and food products in the United States and internationally. The company operates through five segments: Grocery Products, Refrigerated Foods, Jennie-O Turkey Store, Specialty Foods, and International & Other. It offers various perishable meat products, including fresh meats, frozen items, refrigerated meal solutions, sausages, hams and bacon. The company also provides turkey products. The Company was founded in 1891 and is based in Austin, Minnesota.

## JBS S.A.

JBS S.A. engages in the processing and trading of animal protein in Brazil and internationally. It offers beef, pork, chicken, and lamb by-products; convenience food products; pet food and concentrates; and bresaola. The Company was founded in 1953 and is headquartered in Sao Paulo, Brazil.

## CPF Foods

Charoen Pokphand Foods Public Company Limited engages in the agri-industrial and integrated food businesses in Asia, Europe, the United States, and internationally. It operates through Livestock Business and Aquaculture Business segments. The company produces and sells swine, chicken, cattle, duck, shrimp, fish, quail, rabbit, fighting cock, ostrich, elephant, and



goat feeds in powder and pellet forms; and breeds and farms broilers, layers, ducks, swine, and fish. The Company was founded in 1978 and is headquartered in Bangkok, Thailand.

## BRF S.A

BRF S.A. raises, produces, and slaughters poultry and pork for processing, production, and sale of fresh meat. It is also produces processed products such as pasta, sauce, mayonnaise, frozen vegetables, and soybean by-products. The Company supplies to supermarkets, retail stores, wholesalers, restaurants, and other institutional customers. BRF S.A. was founded in 1900 and is headquartered in Itajai, Brazil.

## Pilgrim's Pride

Pilgrim's Pride Corporation engages in the production, processing, marketing and distribution of fresh, frozen, and value-added chicken products in the United States, the United Kingdom, Europe, and Mexico. The company offers fresh chicken products, and pre-packaged case-ready chicken, such as whole chickens and chicken parts. The Company was founded in 1946 and is headquartered in Greeley, Colorado. It is a subsidiary of JBS S.A.

## NH Foods

NH Foods Ltd. manufactures and sells processed meats and cooked foods in Japan and internationally. Its Processed Foods Business division offers hams, sausages and coarse-ground wieners. Its Fresh Meats Business division engages in the production and raising, slaughtering, processing, distribution and sale of fresh meat products. Its Affiliated Business division produces and sells marine and dairy products. The Company was founded in 1942 and is headquartered in Osaka, Japan.

## Marfrig Global Foods

Marfrig Global Foods S.A. operates in the food and foodservice industries in Brazil and internationally. It operates through Marfrig Beef and Keystone segments. It is involved in the production, processing, distribution, and sale of animal protein, such as beef, lamb, poultry and various other food products. Marfrig exports their products to approximately 100 countries. The Company was founded in 1986 and is based in Sao Paulo, Brazil.

## Maple Leaf Foods

Maple Leaf Foods Inc. operates as a consumer protein company. It produces various food products, including prepared meats, ready-to-cook and ready-to-serve meals, fresh pork, poultry, turkey, and plant protein products. Its largest markets are Canada, the United States, Mexico, and Japan. The Company is based in Mississauga, Canada.

## Sanderson Farms

Sanderson Farms, Inc., an integrated poultry processing company, produces, processes, markets, and distributes fresh, frozen, and prepared chicken products in the United States. The company sells ice pack, chill pack, bulk pack, and frozen chicken in whole, cut-up and boneless. The Company was founded in 1947 and is based in Laurel, Mississippi.

## Scandi Standard

Scandi Standard AB (publ) slaughters, produces, develops, sells and markets chicken products in Denmark, Norway, Sweden, and Finland. It offers chilled and frozen, free-range and organic chicken products. The company is also involved in the rearing, production and hatching of day-old chicks, processing of slaughterhouse by-products for use in pet food and selling eggs.



## Appendix 5: Weighted Average Cost of Capital

We have estimated the post-tax, nominal Weighted Average Cost of Capital (**WACC**) for Tegel to be within a range of 9.1% and 9.5%.

The WACC has been determined as follows:

$$WACC = R_d(1 - T_c) \frac{D}{D + E} + R_e \frac{E}{D + E}$$

where:

- $R_d$  = Pre-tax cost of debt = 5.35%, based on a credit margin of 2% above the long-run risk free rate
- $T_c$  = Marginal corporate tax rate = 28%
- $D / (D + E)$  = Target gearing (where E represents market capitalisation) = 23.1%, which is equivalent to 30% 'debt to equity' and based on the ratios of Tegel and the comparable companies
- $R_e$  = Cost of equity = 10.7% to 11.2%

We have determined the cost of equity using the Brennan-Lally specification of the Capital Asset Pricing Model, which uses the following formula:

$$R_e = R_f(1 - T_i) + \beta_e[R_m - R_f(1 - T_i)] + SCRP$$

where:

- $R_f$  = Risk free rate = 3.35%, based on the yields of long term government bonds
- $T_i$  = Investors' effective tax rate on interest, dividends and capital gains = 28%
- $\beta_a$  = Asset Beta = a range of 0.75 to 0.85, based upon a review of the betas of comparable companies and broker reports. We have adopted a mid-point of 0.8.
- $\beta_e$  = Equity Beta =  $\beta_a (1 + D/E)$  = 1.04
- $R_m - R_f(1 - T_i)$  = Expected excess return, after investor taxes, on the market portfolio of equity investments = 7.5%
- SCRP = Specific company risk premium = 0.5% to 1.0% (Tegel has an enterprise value greater than \$500 million and therefore no small company risk premium has been applied. However, Tegel does face bio-security break risks associated with avian flu. The severity of this risk would be high in terms of global reputation and costs of production, but the probability of occurrence is relatively low in the medium term. Because this risk is not specifically factored into the cashflow forecasts, we consider it appropriate to make an adjustment to WACC).

# APPENDIX 4

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Northington Partners Report  
Prepared Under Rule 22 of The Takeovers Code

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## Bounty Holdings New Zealand Limited

### Independent Adviser's Report

Prepared Pursuant to Rule 22 of the New Zealand Takeovers Code in Relation to a Full Takeover Offer for Tegel Group Holdings Limited

May 2018

#### Purpose of the Report

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- This report is **not** a report on the merits of the offer.
- This report has been obtained by the offeror.
- The purpose of this report is solely to compare the consideration and terms offered for the different classes of financial products, and to certify as to the fairness and reasonableness of that consideration and terms as between the different classes.
- A separate independent adviser's report on the merits of the offer, commissioned by the directors of Tegel Group Holdings Limited, must accompany Tegel Group Holdings Limited's target company statement.
- The offer should be read in conjunction with this report and the separate independent adviser's report on the merits of the offer.

#### Statement of Independence

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Northington Partners Limited confirms that it:

- Has no conflict of interest that could affect its ability to provide an unbiased report; and
- Has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Northington Partners Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.



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## Abbreviations and Definitions

Bounty Holdings	Bounty Holdings New Zealand Limited
Code	The Takeovers Code
IPO	Initial Public Offering
Northington Partners	Northington Partners Limited
NZ\$	New Zealand dollars
Offer	The full takeover offer that Bounty Holdings intends to make for all of the voting and non-voting equity securities on issue in Tegel
Ordinary Shares	The 355,906,183 ordinary shares of Tegel on issue
PDS	Product Disclosure Statement
Performance Rights	The 2,041,631 rights to acquire shares issued by Tegel under its employee long-term incentive scheme
Performance Threshold	The conditions which must be met before the Performance Rights vest
Share Offer Price	A cash payment of NZ\$1.23 per Ordinary Share
Tegel or Company	Tegel Group Holdings Limited
FY2017 Performance Right Offer Price	A cash payment of NZ\$0.043 per Performance Right
FY2017 Performance Rights	The 844,572 Performance Rights issued on 4 May 2016
FY2017 Vesting Period	4 May 2016 to the announcement of Tegel's FY2019 annual financial results
FY2018 Performance Right Offer Price	A cash payment of NZ\$0.260 per Performance Right
FY2018 Performance Rights	The 1,197,059 Performance Rights issued on 1 July 2017
FY2018 Vesting Period	29 July 2017 to the announcement of Tegel's FY2020 annual financial results
TSR	Total Shareholder Return

## 1.0 Introduction and Summary of our Assessment

### 1.1. Introduction

Bounty Holdings New Zealand Limited (“**Bounty Holdings**”) issued a notice of its intention to make a full takeover offer (“**Offer**”) for all of the equity securities on issue in Tegel Group Holdings Limited (“**Tegel**” or “**the Company**”) on 26 April 2018.

The Offer is made in respect to the following categories of equity securities outstanding, based on Tegel’s Rule 42A Class Notice issued on 9 May 2018:

- 355,906,183 fully paid ordinary shares (“**Ordinary Shares**”);
- 2,041,631 performance rights to acquire shares issued by Tegel under its employee long-term incentive scheme (“**Performance Rights**”). There are two tranches of performance rights:
  - 844,572 Performance Rights issued on 4 May 2016 (“**FY2017 Performance Rights**”); and
  - 1,197,059 Performance Rights issued on 1 July 2017 (“**FY2018 Performance Rights**”).

Further details on the terms of the Performance Rights are set out below in Section 2.2.

The Ordinary Shares are voting securities and the Performance Rights are non-voting securities. Offer prices for each class of equity security are as follows:

- **Offer Price for Ordinary Shares:** A cash payment of \$1.23 per Ordinary Share (“**Share Offer Price**”).
- **Offer Price for Performance Rights:** A cash payment of:
  - \$0.043 for each FY2017 Performance Right (“**FY2017 Performance Right Offer Price**”); and
  - \$0.260 for each FY2018 Performance Right (“**FY2018 Performance Right Offer Price**”).

Rule 8(4) of the Takeover Code (“**Code**”) requires that if non-voting securities are included in a full offer, the consideration and terms offered for non-voting securities must be fair and reasonable in comparison with the consideration and terms offered for voting securities, as well as between classes of the non-voting securities. In this particular case, the Code therefore requires that the consideration and terms offered for the Performance Rights must be fair and reasonable:

- compared to the consideration and terms offered for the Ordinary Shares; and
- as between the FY2017 and FY2018 Performance Rights.

Further details relating to the scope of our report are set out in Appendix I.

### 1.2. Summary of our Assessment

A Rule 22 report is not required to consider the merits of the Offer for the Ordinary Shares, and we offer no opinion on whether the Share Offer Price of \$1.23 is fair and reasonable. Rather, our role is to determine whether the FY2017 and FY2018 Performance Right Offer Prices are fair and reasonable in comparison to the amount offered for the Ordinary Shares, and in comparison with each other.

As set out in Section 3.0, we assess that the current value of each FY2017 Performance Right is between \$0.041 and \$0.056, and that the current value of each FY2018 Performance Right is between \$0.253 and \$0.424. On the basis that the FY2017 and FY2018 Performance Right Offer Prices are \$0.043 and \$0.260 respectively, we conclude that the Performance Right Offer Prices are fair compared to the Share Offer Price, and are fair as between both tranches. We also note that the holders of Ordinary Shares and both tranches of Performance Rights will be paid cash if they are capable of accepting and accept the Offer, and the Offer to each group is effectively conditional on the same set of general conditions. On this basis, we conclude that the terms of the Offer for the Ordinary Shares, FY2017 Performance Rights and FY2018 Performance Rights are equivalent.

We therefore certify that in our opinion the consideration and terms offered for non-voting securities (being the Performance Rights) are fair and reasonable in comparison with the consideration and terms offered for the voting securities (being the Ordinary Shares). We further certify that in our opinion the consideration and terms offered are fair and reasonable as between the classes of non-voting securities (being FY2017 and FY2018 Performance Rights).



## 2.0 Equity Securities on Issue in Tegel

### 2.1. Ordinary Shares

There are currently 355,906,183 Ordinary Shares on issue in Tegel. Each Ordinary Share confers:

- The right on a poll at a meeting of shareholders to one vote on each resolution;
- The right to an equal share in dividends authorised by the Board; and
- The right to an equal share in the distribution of the surplus assets of the Company.

### 2.2. Performance Rights

The Performance Rights relate to an incentive plan that Tegel established for senior managers and eligible employees in April 2016, just before the Company's Initial Public Offering ("IPO") in May 2016. The plan was designed to attract and retain senior managers within the business and align the interests of management with shareholders' interests.

Based on publicly available information, the key terms of both tranches of Performance Rights are set out in Table 1 below.

**Table 1: Summary of the Material Terms of the Performance Rights**

Material Term	FY2017 Performance Rights	FY2018 Performance Rights
Number on Issue	844,572	1,197,059
Underlying Asset	For both tranches, each Performance Right gives the participant the right to acquire one ordinary share, subject to meeting the vesting conditions set out below.	
Issue Date	4 May 2016 (the day after the IPO)	1 July 2017
Vesting Period	The vesting period for FY2017 and FY2018 Performance Rights ends after the announcement of Tegel's financial results for the FY2019 and FY2020 financial years respectively. Based on the announcement date for the FY2017 year, we assume the Vesting Periods end on 27 June 2019 and 26 June 2020, respectively.	
Performance Threshold	<p>Both tranches of Performance Rights will only vest (and therefore become exercisable) under the following conditions:</p> <ol style="list-style-type: none"><li>If the Total Shareholder Return ("TSR"), during their respective Vesting Periods is positive; and</li><li>The TSR for Tegel ranks above the 50'th percentile of TSRs for companies in the S&amp;P/NZX50; and</li><li>The participant remains employed by Tegel at the time of vesting.</li></ol> <p>The TSR is calculated separately for both tranches, with the opening prices for the calculation based on the Tegel share price at each issue date.</p> <p>For both tranches, we understand that 50% of all Performance Rights will vest if these three conditions are met, and that 100% of the Performance Rights will vest if the Tegel TSR ranks at or above the 75'th percentile of returns for the companies in the S&amp;P/NZX50. If the Tegel TSR ranks between the 50'th and 75'th percentile, the number of Performance Rights that vest will be determined on a straight-line basis between 50% and 100% of the total number on issue.</p>	
Exercise Price	Should the rights vest, the participants will not pay any exercise price when they elect to acquire ordinary shares in exchange for their vested performance rights.	

Source: Tegel Rule 42A Class Notice, Tegel Long Term Incentive Plan Rules

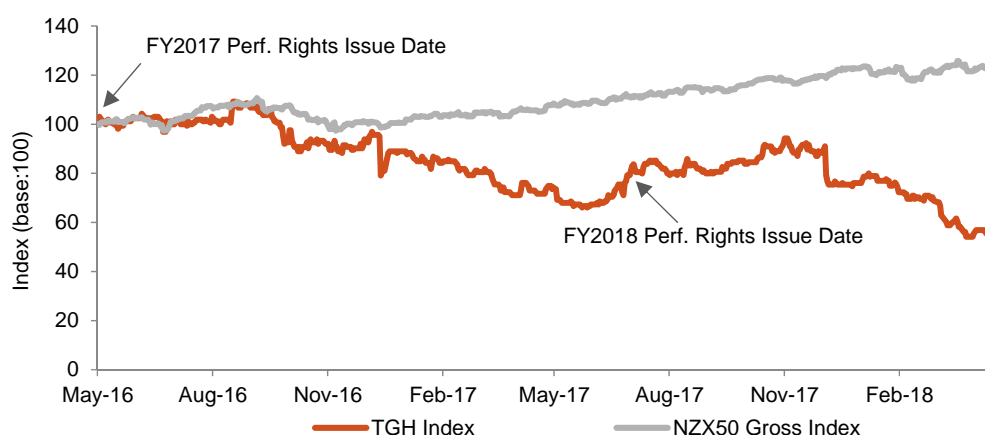
## 3.0 Valuation of the Performance Rights

### 3.1. Valuation Framework

Each tranche of the Performance Rights will only have value if the TSR for Tegel over the relevant Vesting Period exceeds the Performance Threshold as set out above in Table 1. This threshold is by its nature uncertain, being dependent on the future performance of the companies included in the NZX50 index. If the Performance Threshold is achieved and the Performance Rights become exercisable, then the payoff will equal the value of the Tegel ordinary shares at the end of the Vesting Period.

The TSR for Tegel is a function of share price performance and dividend payments since listing. As summarised in Figure 1, the Tegel opening share price on the issue date for the FY2017 Performance Rights was \$1.63 per share and has generally tracked downwards since then. Tegel's share price increased for a short time after the issue of FY2018 Performance Rights, but has declined since December 2017. Although the share price decline has been partially offset by dividend payments, the TSR for Tegel has lagged the performance of the NZX50 index.

**Figure 1: TSR for Tegel and NZX50 Gross Index Since Tegel IPO, before Bounty Holdings Offer**



Source: IRESS, Northington Partners Analysis

We suggest that the Performance Rights can be characterised as a variant of an Asset-or-Nothing binary option. Standard Asset-or-Nothing call options pay the option holder the value of the asset at maturity if the asset price exceeds a prescribed exercise price, and nothing if that exercise price is not achieved. In this case, the exercise threshold can be thought of as the future Tegel share price that will need to be achieved at the end of the Vesting Period such that the TSR for Tegel exceeds the expected TSR for the 50'th percentile of companies included in the NZX50.

Within this framework, the current value of the Performance Rights is therefore broadly dependent on the probability that the Tegel share price will exceed the target price at the end of the Vesting Period. Because the Tegel share price performance since listing has been poor relative to the market as a whole, the Performance Rights can be characterised as being deeply out-of-the-money and the probability that the Performance Threshold will be achieved is therefore relatively low. This is particularly the case for the FY2017 Performance Rights.

Based on our characterisation of the Performance Rights, current value can be determined using the following closed-form solution for an Asset-or-Nothing call option:

**Equation 1: Value of an Asset-or-Nothing Call Option**

Current Value per Performance Right =  $S_0 e^{-qT} N(d_1)$

$$\text{Where } d_1 = \frac{\ln\left(\frac{S_0}{K}\right) + \left(r - q + \frac{\sigma^2}{2}\right)T}{\sigma\sqrt{T}}$$

$S_0$  = Current Tegel Share Price

$T$  = Time to Maturity in years

$K$  = Effective Exercise Price

$q$  = Continuously compounded dividend yield of Tegel  
 $r$  = Risk-free rate  
 $\sigma$  = Volatility of Tegel's returns  
 $N()$  = standard normal cumulative distribution function

### 3.2. Valuation Summary

Our estimates for the key input parameters for Equation 1 for both tranches of Performance Rights are summarised in Table 2.

**Table 2: Valuation Inputs**

Input Parameter	FY2017 Perf. Rights Assumed Value	FY2018 Perf. Rights Assumed Value	Commentary
<b>Valuation Date</b>	26 April 2018	26 April 2018	Date of Bounty Holding's Takeover Notice
<b>Current Tegel Share Price</b>	\$1.23	\$1.23	In the context of the Offer process, we believe that the share price should be set equal to the Share Offer Price. This ensures that the Performance Rights are valued using an input price which is consistent with the price being offered for the Ordinary Shares.
<b>Time to Maturity</b>	1.17 years	2.17 years	Based on assumed maturity dates of 27 June 2019 and 26 June 2020, being the end of the respective Vesting Periods.
<b>Risk-free rate</b>	1.76%	1.91%	Based on 20-day average observed yield on NZ Government bonds with maturity closest to the Time to Maturity for each tranche (1 Year and 2 Year).
<b>Dividend Yield</b>	5.96%	5.96%	Based on actual dividends over the last 12 months and the Share Offer Price.
<b>Exercise Price</b>	\$1.88 - \$2.22	\$1.29 - \$1.40	The estimated Tegel share price at maturity required to meet the Performance Threshold. Based on expected TSR for Tegel (based on historical dividends) and companies included in the NZX50 between the issue date and maturity date for the Performance Rights.
<b>Volatility</b>	30%	30%	Based on the annualised standard deviation of Tegel's daily returns since listing.

Source: Northington Partners Analysis

Based on these inputs we have assessed a valuation range for the Performance Rights as summarised in Table 3.

**Table 3: Assessed Valuation Range for Performance Rights**

		Low	High
<b>FY2017 Performance Rights</b>	Value per Performance Right	\$0.041	\$0.056
	Number of Performance Rights	844,572	844,572
	<b>Total Value of Performance Rights</b>	<b>\$34,283</b>	<b>\$46,959</b>
<b>FY2018 Performance Rights</b>	Value per Performance Right	\$0.253	\$0.424
	Number of Performance Rights	1,197,059	1,197,059
	<b>Total Value of Performance Rights</b>	<b>\$302,703</b>	<b>\$508,023</b>
<b>All Performance Rights</b>	<b>Total Value of All Performance Rights</b>	<b>\$336,986</b>	<b>\$554,982</b>

Source: Northington Partners Analysis

We conclude that:

- the aggregate value of the FY2017 Performance Rights lies in a range between \$34,283 and \$46,959, which equates to a value of between \$0.041 and \$0.056 per Performance Right;
- the aggregate value of the FY2018 Performance Rights lies in a range between \$302,703 and \$508,023, which equates to a value of between \$0.253 and \$0.424 per Performance Right; and
- the aggregate value of both tranches of Performance Rights lies in a range between \$336,986 and \$554,982.

These value ranges reflect Tegel's performance since listing, the relatively low likelihood of the Performance Thresholds being met at the end of the Vesting Period, as well as the potential payoff in the event that all vesting conditions are satisfied. We note that the FY2018 Performance Rights was issued when Tegel's share price was significantly lower and has a longer Time to Maturity; because the FY2018 Performance Rights are therefore more likely to meet the TSR threshold, they have a considerably higher value per right than FY2017 Performance Rights.

## Appendix I: Scope of this Report

### Requirements of Takeovers Code

Tegel is a publicly listed company on the NZX Main Board and is a “Code Company” as defined by Rule 3 of the Code. The takeover process contemplated by Bounty Holdings must therefore comply with the provisions set out in the Code relating to the Offer procedure.

Pursuant to Rule 8(2) of the Code, a full offer must include offers in respect of all the securities in each class of equity securities of the target company (other than those that are already held by the offeror). Furthermore, Rule 8(4) of the Code requires that if non-voting securities are included in a full offer, the consideration and terms offered for non-voting securities must be fair and reasonable in comparison with the consideration and terms offered for voting securities and as between classes of non-voting securities. In this particular case, the Code therefore requires that

1. the consideration and terms offered for the Performance Rights must be fair and reasonable compared to the consideration and terms offered for the Ordinary Shares; and
2. the consideration and terms offered for FY2017 and FY2018 Performance Rights must be fair and reasonable compared to each other.

As the offeror, Bounty Holdings must obtain a report pursuant to Rule 22 of the Code from an independent adviser which certifies that, in the adviser's opinion, the offer complies with Rule 8(4). This report has been prepared to meet the requirements of Rule 22 of the Code. The appointment of Northington Partners Limited (“**Northington Partners**”) to prepare the Rule 22 report was approved by the Takeovers Panel on 1 March 2018.

### Assessment Approach

Rule 22 of the Code requires that the independent adviser's report certifies that the consideration and terms are fair and reasonable in comparison with the consideration and terms offered for voting securities and as between the classes of non-voting securities. The exact meaning of the words “fair” and “reasonable” is not prescribed in the Code and there is no well accepted, authoritative New Zealand reference that clearly establishes what should be considered for an assessment of this nature.

Statutory requirements within the Australian market are defined in somewhat more detail. The Australian Securities and Investments Commission has issued a policy statement regarding “Independent Expert Reports to Shareholders”, which sets out some fundamental requirements for a report that is completed in similar circumstances to those relating to this Offer.

According to the policy statement, an offer is “fair” if the value of the consideration to be paid under the offer is equal to or greater than the value of the securities that are subject to the offer. An offer is deemed to be “reasonable” if it is fair. An offer may also be reasonable if it is unfair but where other significant factors mean that the shareholders should accept the offer in the absence of any higher bid before the close of the offer.

We believe that these definitions provide a useful starting point for assessing the fairness and reasonableness of the consideration offered for each class of equity securities under the Offer. Fairness is determined largely from the results of a comparative valuation exercise, while the reasonableness of the Offer is related to a general assessment of a range of other non-price terms that may be relevant in this case.

For this particular assessment, the fairness of the Performance Rights Offer Prices are only indirectly related to the Share Offer Price. We therefore suggest that the fairness of the consideration offered for the Performance Rights cannot be sensibly considered by direct comparison to the consideration for the Ordinary Shares. Our assessment of fairness is instead determined simply by a comparison of the Performance Rights Offer Prices to our assessed value ranges, but where the value of the Performance Rights is determined under the assumption that the current market price of Ordinary Shares is equal to the Share Offer Price.

We believe that the assessment of the Offer terms relating to the Ordinary Shares in comparison to the Offer terms relating to the Performance Rights is inconsequential in this case. Both the holders of the Ordinary Shares and the holders of both tranches of Performance Rights will receive cash consideration if they are capable of accepting and accept the Offer, and the Offer to each group of stakeholders is effectively contingent on the same set of conditions. On this basis, we conclude that the terms of the Offer are equivalent as between the voting and non-voting securities, and as between classes of non-voting securities.

## Primary Sources of Information

The sources of information that we have relied on in preparing this report are set out in Appendix II.

## Limitations and Reliance on Information

This report is subject to all of the limitations and restrictions set out in Appendix III. In particular, in preparing this report, Northington Partners has relied on the information set out in Appendix II and has assumed the honesty and accuracy of this information. Northington Partners accepts no responsibility for inaccurate information supplied by Tegel, or for any failure by Tegel to provide relevant information.

Our assessment is reliant on a number of key assumptions that have been outlined in this report. Should any of these assumptions not be accurate, then the valuation assessment and our conclusions could be materially affected.

Subject to this limitation, we have obtained all of the information that we consider is necessary for preparing the report.

## Appendix II: Sources of Information Used in this Report

Other than the information sources referenced directly in the body of the report, this assessment is also reliant on the following sources of information:

- Audited annual financial statements for Tegel for FY2016 and FY2017;
- The Tegel Product Disclosure Statement for its IPO, prepared in March 2016;
- The plan rules for the Tegel Long Term Incentive Plan, which govern the management of the Performance Rights; and
- The Rule 42a Class Notice issued by Tegel on 9 May 2018.



## Appendix III: Qualifications, Declarations and Consents

### Declarations

This report is dated 17 May 2018 and has been prepared by Northington Partners at the request of Bounty Holdings to fulfil the reporting requirements pursuant to Rule 22 of the Code. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to Bounty Holdings for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of all of the security holders of Tegel that are subject to the Offer, and Northington Partners consents to the distribution of this report to those people. The engagement terms did not contain any term which materially restricted the scope of our work.

### Qualifications

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D and Jonathan Burke BCM, B.Com (Hons). Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

Northington Partners has been responsible for the preparation of numerous Independent Reports in relation to takeovers, mergers, and a range of other transactions subject to the Code and NZX Listing Rules.

### Independence

Northington Partners has not been previously engaged on any matter by Bounty Holdings or Tegel or (to the best of our knowledge) by any other party to the proposed transaction that could affect our independence. None of the Directors or employees of Northington Partners have any other relationship with any of the Directors or substantial security holders of the parties involved in the proposed Offer.

The preparation of this Rule 22 report will be Northington Partners' only involvement in relation to the proposed transaction. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

### Disclaimer and Restriction on the Scope of our Work

In preparing this report, Northington Partners has relied on information provided by Bounty Holdings and Tegel. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its Directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

## Indemnity

Bounty Holdings has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report; except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

Bounty Holdings has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.

Northington Partners Limited

A handwritten signature in black ink, appearing to read 'G Anderson', written in a cursive style.

Greg Anderson

Managing Director

[www.northington.co.nz](http://www.northington.co.nz)







[www.tegel.co.nz](http://www.tegel.co.nz)



# ARGENT COMPANY STATEMENT